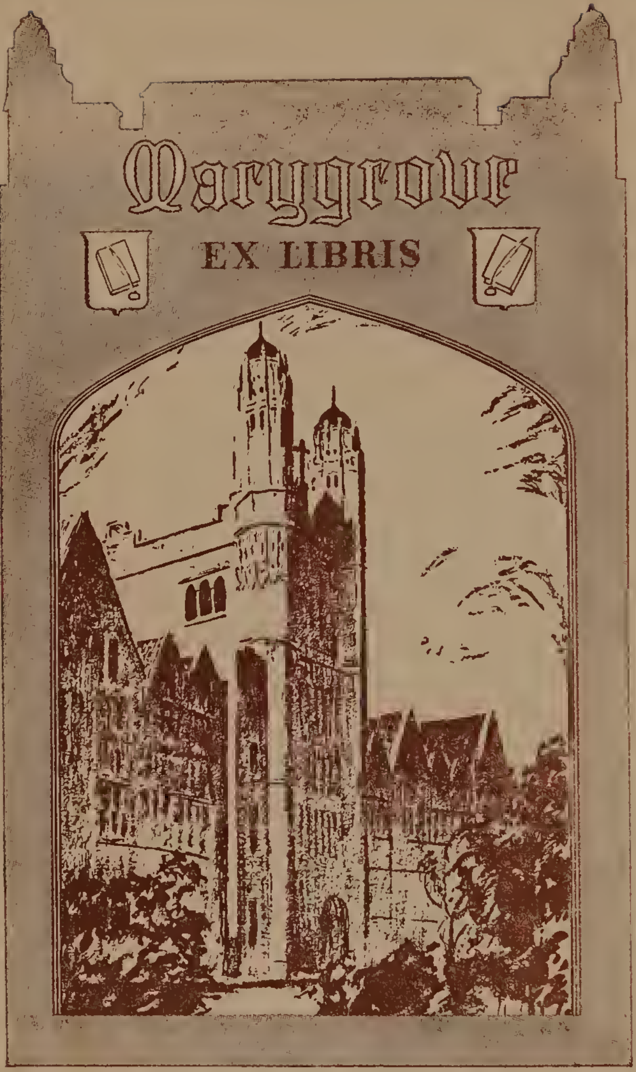
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Profit Sharing
Its Principles and Practice

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A COLLABORATION

BY

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PREFACE

MOVED by a common interest in the subject, the authors in 1915 undertook jointly to make a careful and comprehensive investigation of the subject of profit sharing. The purpose of this effort has been to mark out the proper scope of profit sharing, to determine the limits, if any, within which it is practicable, and to discover the results which may be expected from its use, as well as the most effective method of utilizing the profit sharing principle. In doing this work the profit sharing methods of a large number of employers have been studied and analyzed, a first-hand investigation has been made of a considerable number of profit sharing plants, many employers and employees have been interviewed, and much correspondence has been conducted. The effort has been not to prove the validity of any particular theory regarding profit sharing, but rather to learn the whole truth regarding the subject. This volume is the outgrowth of these joint efforts. The members of the group approached the study from somewhat different points of view and with different ideas as to the practicability of profit sharing, but all undertook the inquiry with an open mind, and all are in substantial agreement upon the conclusions embodied in these pages.

This volume has a plan different from that of other publications upon this subject, most of which are compilations of descriptions of profit sharing plans in operation. Its purpose is to serve as a guide to those who wish to learn the varied possibilities of this method of compensation. Many employers have been reaching more or less blindly for methods of compensation which will increase the prosperity of their business, and which will also advance the well-being of their employees. It is believed that by the aid of this volume such employers may inform themselves as to what circumstances will prove most favorable for the adoption of profit sharing, and from what groups of employees the largest results may be expected. It is hoped that the book will further the understanding of the merits and advantages of profit sharing, as well as of its dangers and pitfalls. There is here no recommendation of a ready-made plan of profit sharing, since no plan is uniformly applicable to all classes of business, but there are indicated those factors, a consideration of which will enable the management of a business to determine whether profit sharing might profitably be introduced among any portion of its employees, and what methods would prove most practicable.

Profit sharing has been studied not only as a method of compensating effort, but also as a means of advancing the broader interests of employees. Employees will find a frank consideration of the dangers to them which exist in particular forms of profit sharing, a frank recognition of the undesirability of

certain types of restrictions, and counsel as to what forms will best promote their interests. The search throughout has been for methods which would prove mutually advantageous to employers and employees.

The result of the study has been to convince the authors of the essential soundness of the profit sharing principle, when wisely applied. The conclusions are published with the hope that they may make clearer the way for the extension of profit sharing on carefully thought out lines and under appropriate circumstances.

It should be stated as fundamental to the whole discussion that profit sharing cannot be considered as a social panacea. It is not an instrument for making over or revolutionizing the present economic system, but presupposes the régime of private property and the wage system. This book merely endeavors to mark out the place of profit sharing within that system.

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CHAPTER I

INTRODUCTION

EARLY EXPERIMENTS IN PROFIT SHARING

FOR a period after 1870 profit sharing was given much thought by American philanthropists and social reformers, whose interest had been attracted by the profit sharing establishments of England and Europe. Numerous articles and several books appeared upon the subject. Many professed to see in profit sharing a solution for all phases of the labor problem. In 1892 there was formed the Association for the Promotion of Profit Sharing. During this period a number of American establishments introduced profit sharing in various forms. N. P. Gilman, in his volume "Profit Sharing between Employer and Employee," published in 1889, listed thirty-two American firms practicing profit sharing. The subject had attracted attention abroad even earlier than in this country. The French Profit Sharing Society (Société pour l'Etude de la Participation aux Bénéfices) was founded in 1879. It issued regular quarterly bulletins upon

the subject. Some of the early European plans are still in successful operation, notably by the Maison Leclaire and the Bon Marché of Paris. But while there were some exceptions, upon the whole it must be said that the early history of profit sharing was not such as to justify the hopes of its advocates. The greater number of schemes introduced were sooner or later discontinued. The sharing of profits came to be regarded as of interest chiefly to the theorist or idealist, but of little value to the employer concerned with efficiency and profits. In general the attitude of employers and employees towards profit sharing during the past decade has been one of lack of interest rather than of opposition.

REVIVAL OF INTEREST IN THE SUBJECT

Recent years have witnessed a marked revival of attention to the subject. Popular, scientific, and trade periodicals have published many articles dealing with it. Conferences of employers have been held to consider it. Private and public agencies have conducted investigations and have issued reports describing the methods of profit sharing actually in use. Among the most important of the recent reports may be mentioned: "Profit Sharing by American Employers," published by the Welfare Department of the National Civic Federation (New York) in 1916; "Industrial Profit Sharing and Welfare Work," a report of the Committee on Industrial Welfare of the Cleveland Chamber of Commerce (1916); "Profit Sharing and Labor Co-Partnership in the United Kingdom" (1912); and

"Profit Sharing and Co-Partnership Abroad" (1914), both of the latter published by the Board of Trade of Great Britain; "Profit Sharing in the United States" (1917), issued by the United States Bureau of Labor Statistics, and frequent bulletins on the subject issued by Babson's Statistical Organization. The fact that a number of firms have introduced profit sharing within the past few years, and that many others are seeking information upon the subject, is further evidence of the genuine growth of interest.

CAUSES FOR RENEWED INTEREST

Industrial unrest and agitation have probably been factors in producing this awakened interest. Another factor has no doubt been the developing perception that frequently there are methods of compensating labor more effective than the flat wage or salary. Whatever the causes may be, the quickened interest in profit sharing is widespread and fully justifies its reëxamination in the light of present-day business practice.

CHAPTER II

FUNDAMENTAL PRINCIPLES OF PROFIT SHARING

WHAT PROFIT SHARING IS

THE term "profit sharing" is used to indicate many different methods of payment. There is little uniformity in plans going under this name, but in all cases they provide for certain payments to employees in addition to their regular wages or salaries. It is these additional payments which are ordinarily regarded as the participation in profits. But there are many plans for extra remuneration which cannot properly be called profit sharing. Perhaps the best definition of profit sharing is that used by the British Board of Trade, in its special report on "Profit Sharing and Labor Co-Partnership in the United Kingdom" (1912). This report states, "Profit sharing is understood to involve an agreement between an employer and his workpeople under which the latter receive, in addition to their wages, a share, fixed beforehand, in the profits of the undertaking." In other words, the essence of profit sharing is that the amount of the special payments received by employees is directly contingent upon the earnings for a specified period, and varies directly with those earnings, upon a prearranged basis.

TYPES OF PROFIT SHARING

The most usual form of the plan involves a distribution of a portion of the profits of the business as a whole. This may be termed *general* profit sharing, because it is the general or total profits, arising from all sources, which are divided. But profit sharing does not necessarily take this form. The profits to be shared may be those arising from a part or separate unit of the business, as for example, when the manager of a department in a retail establishment shares in the profits of his department, or when the manager of a branch store shares in the profits yielded by that store. Such an arrangement may be called *unit* profit sharing. Again the profits to be divided may be those attributed exclusively to the individual's own efforts, as for example, when traveling salesmen share in the profits shown upon the orders they secure. This may be termed *individual* profit sharing. Although the last two forms are not so common as the first, they are none the less true profit sharing. Profit sharing, let us repeat, is an arrangement whereby *any portion* of the employees' remuneration varies directly with the net profits of the business, or any part or unit of the business. The essential feature of profit sharing is that the employees' earnings are not definitely fixed, and that the basis upon which they vary is net profits,— as distinguished from output, total sales, or any other factor.

PSEUDO PROFIT SHARING PLANS

This conception of profit sharing is much narrower than the popular one. In common terminology the term "profit sharing" is frequently applied loosely to all forms of compensation which represent an addition to guaranteed wages or salaries. An increasingly large number of employers are paying a periodic bonus consisting of a certain percentage upon wages. Such payments are frequently called profit sharing, although they represent merely a form of wage, or deferred wage payment, the amount of which has no direct relation to the profits earned during the period. Other firms announce that they will pay a bonus upon all wages at the end of the year, the employees being given to understand that the amount of the bonus will depend somewhat upon the prosperity of the business for the year. Under this plan the percentage of bonus to wages is not announced in advance, but remains entirely at the company's discretion. The Youngstown Sheet and Tube Company used this method for several years. It was abandoned after the violent labor outbreaks experienced by this corporation in 1916. Other firms occasionally pay a bonus on wages without having announced in advance their intention of so doing, and without having obligated themselves to do so. It is clear that such plans do not come within the meaning of the term "profit sharing" as here defined, or within any strict interpretation of that term. Unless the method of computing the amount of profits available for the

individual participant is definitely established at the outset, he does not systematically "share" in profits. The employer may arbitrarily grant an extra payment. Such bonus grants in addition to regular wages presumably come out of what might otherwise go to profits. But they do not represent profit sharing in any real sense, since the amount of additional compensation obtained by each employee does not vary directly, and upon a pre-arranged basis, with the profits earned during the period.

Other firms have introduced stock purchasing or stock distribution plans for their employees, which are mistakenly regarded as profit sharing. In some of them the "profit sharing" feature consists simply in the fact that the stock is sold to employees at less than its market value, or that it is sold to them upon installments. It is noticeable that some corporations are more anxious to make the employees feel that a profit sharing plan is in effect than they are to introduce a genuine profit sharing arrangement.

SUCH PLANS ALSO CONSIDERED

In spite of the fact that these various plans of compensation additional to fixed wages do not represent true profit sharing, it has seemed best, for the purposes of this study, not to exclude them from consideration. Important results may be produced by some of these pseudo profit sharing plans. But whatever the results obtained, they are not the results of profit sharing. When such plans are discussed it should be understood that they do not

constitute profit sharing in the technical sense of that term. But the advantages and disadvantages of these methods of making additional payments will be considered and compared with those of true profit sharing.

MARKET WAGES MUST BE PAID

It would be difficult if not impossible to formulate any generalization regarding the probable success or effectiveness of profit sharing which would be uniformly applicable to all businesses and to all groups of employees. But it is believed that there are certain general principles regarding profit sharing which are fundamental, and which apply with equal force, whether it is introduced to stimulate efficiency or to promote social justice.

The first principle is that effective profit sharing must ordinarily presuppose the payment of the full going rate of wages to participants. If profit sharing is primarily introduced to improve the conditions of the workers, it must clearly begin by the payment of full wages, for the economic condition of employees cannot be advanced by lessening the amount of wages upon which they can definitely rely. Likewise, if the business point of view prevails, the full market wages must be guaranteed. For the object in this case is to induce a special degree of effort, efficiency, coöperation, or some other desirable result, not usually obtainable by the payment of a flat wage. Obviously these special results cannot be expected unless the rewards which call them forth can be counted on to exceed the regular and usual wage.

If the profit sharing employer fails to pay a fixed wage at least as great as that paid by his non-profit sharing competitors, the resentment among his employees caused by this act may more than counteract any desirable results which might have been secured. It may be confidently asserted that no employer can secure important results through profit sharing unless the profits which he distributes represent a payment over and above the market wages of the district and industry. As has been pointed out by Babson's Statistical Organization in a special report upon this subject, as on the farm it is the top bushels that count, so in industrial enterprises it is the amounts over and above the usual that secure the unusual devotion of employees.

THIS PRINCIPLE NOT ALWAYS OBSERVED

Some employers and corporations have sought to use profit sharing for the purpose of keeping wages down or of paying wages less than would otherwise have been necessary. For example, the head of one profit sharing concern writes: "On January first of each year our profits are distributed, and wages adjusted. On that day we consider the question of the wages of employees. Any who insist on securing an advance in salary are dropped from the profit sharing list." The owner of a retail store conducted on a profit sharing basis, when asked to enumerate the results achieved by his profit sharing plan, stated that "It has succeeded in keeping the salaries the same as they were when

the plan was introduced several years ago, in spite of the fact that the general scale of salaries, the prices of commodities, and everything else has gone up." The president of a corporation employing over five thousand men indicated a similar attitude of mind. This corporation had for several years practiced what it regarded as profit sharing, but what was in reality an annual bonus distribution. The bonus was the same percentage upon wages for all employees, but the percentage was determined at the company's discretion, although understood to be in relation to earnings. The president of this concern, in an interview during our investigations, said: "My idea is to pay men as regular wages an amount slightly less than the actual value of their services, and then to make additional payments to them, dependent in amount upon the success of the business and the earnings of the company."

RESULTS OF VIOLATING IT

If the employer endeavors to use profit sharing to "nibble off" the existing wage scale, or to depress wages, he will find, sooner or later, that it fails to produce the hoped-for results. It is significant to note that only a few months before the above remark was made by the president who favored paying men "less than they are worth," his corporation experienced one of the most violent strikes and labor disturbances in the history of the industry. A New England manufacturer lamented the fact that his profit sharing plan did not prove sufficient to

secure stability of his labor force, and that his female profit sharers were regularly leaving his employ. Inquiry revealed that the wage he was paying to these young women was much less than the usual wage for such labor. In this instance, as in others, it is apparent that profit sharing used to depress wages, instead of being an evidence of good management, is a sign of poor business judgment. A profit sharing plan cannot be operated with this purpose for any length of time before the design will be perceived, and the result will be other than beneficial.

EXCEPTION IN THE CASE OF MANAGERIAL EMPLOYEES

In the above discussion the existence of a "going wage" or "market wage" has been assumed. But for some higher paid employees there is no easily ascertainable "market wage," because the work, and therefore the pay, cannot be standardized. This is particularly true of those whose functions partake of the managerial nature and among whom there are wide variations in salary. For these it may not prove equally necessary or possible to establish a fixed "market" salary. For example, profit sharing is sometimes applied to important employees in the managerial group who are placed upon comparatively small salaries, which merely serve the purpose of a drawing and expense account, with an arrangement under which they derive a large portion of their income from profits. This plan is not open to the objections which apply to

cutting wages among the lower paid groups. For under such circumstances the participants become, in a limited sense, partners in the business. They contribute their managerial ability, the owners contribute the capital, and both share in the profits. Furthermore, since such participants actually exercise functions of management, it is not improper that they should be permitted to assume some of the risks of the enterprise, if they care to do so, and frequently they are glad to do it. Therefore, when profit sharing is applied to the discretionary or managerial group, where little standardization of results or salaries is possible, it is not absolutely necessary that it shall begin with the payment of the "market wage." Clearly such an arrangement would be inapplicable when, as is sometimes the case, it is understood that a substantial or large proportion of the total income of the participant is to come from profits.

PAYMENTS MUST BE SUBSTANTIAL

A second principle essential to the success of any profit sharing plan relates to the size of the prospective profit distribution. The payments provided must be adequate. It is impossible to prescribe any particular percentage which will prove most stimulating. But in profit sharing for business purposes there must be the prospect that the profits to be obtained under normally successful conditions will represent an appreciable addition to wages. The employer must not lose sight of the fact that he expects to obtain certain valuable

results in larger degree than under a straight wage system. If these results are worth having they are worth paying for. Indeed, he cannot secure them without paying for them. He must offer an incentive which appeals to the participants as worth while. The payments over and above wages or salaries must be commensurate with the additional interest or effort expected from and displayed by the participants. This does not mean that a profit sharing plan will fail if, under unusual circumstances, the profits available for distribution prove to be small or non-existent. For example, the N. O. Nelson Manufacturing Company was compelled to suspend wage dividends entirely for several years after the panic of 1893, but continued its plan in operation. Such circumstances, however, must be recognized as distinctly unusual and extraordinary. A profit sharing plan which is to prove permanently successful as a business arrangement must be designed so that in normal times there may be an expectancy of a fair and adequate distribution of profits. Although, as has been stated, no exact percentage can be prescribed that is applicable to all concerns, yet experience indicates that an additional share amounting as a minimum to five or six per cent of wages is required to excite and sustain the interest and effort of any group of employees. Similarly, if social purposes are paramount in the employer's mind, the profit share must be considerable, in order to advance the standard of living, to promote thrift and savings, and to improve the conditions of life.

PLAN SHOULD BE DEFINITE

Further, profit sharing will not achieve its greatest effectiveness unless there be a definite plan or agreement under which the proportion or share of profits to be distributed is determined and established in advance. There are many concerns using so-called "profit sharing" plans under which, at the end of the year, the employer simply determines in the exercise of his own discretion the amount or proportion of profits which shall be paid out. A contracting firm in Ohio, in the announcement of its profit sharing plan, states: "Out of the net profits of the business for said fiscal year, beginning February first, 1915, remaining after deducting all costs and expense incident to said business, including payment of wages as shown by said payroll, there shall be first set aside such sum as the Board of Directors may determine to be a fair return upon capital invested, and that out of the balance remaining, one-half thereof shall be distributed among such employees as may be deemed worthy by the Board of Directors."

INDEFINITE PLANS ARE OF QUESTIONABLE VALUE

Such plans are of questionable value viewed as instruments either for the promotion of efficiency or of social welfare. The arbitrary decision of the management, made after and not before the extra exertion, robs the plans of a large part of their stimulating power. It is not to be expected that men will concern themselves to increase profits and

keep down costs, when they have no knowledge as to what portion of the profits, if any, they will receive. From the standpoint of social betterment such arbitrary distributions are also to be condemned. When the money is paid out simply as a voluntary and discretionary payment, the amount of which depends upon the judgment, whim, caprice, or generosity of the employer, it is difficult to regard it as anything other than charity. A widespread use of profit sharing of this character would inevitably work undesirable social results among members of the employed class, by making them more dependent upon the bounty and charity of employers than upon their own initiative and bargaining power.

NATURE OF THE PLAN MUST VARY WITH ITS PURPOSE

Another of the fundamental principles regarding profit sharing, a principle never to be lost sight of, is that the nature of the plan must be arranged in accordance with the special purpose or purposes which it is expected will be promoted. A system which may be well devised to promote one purpose may be ill adapted to promote another purpose. Profit sharing aiming at length and stability of service might fail to promote increased efficiency. A plan organized to assist savings for old age might not be so successful in elevating the standard of living. The specific purpose or purposes must first be decided upon, and then the details of the plan must be arranged accordingly. A manufactur-

ing establishment in New York recently announced that henceforth it would distribute twenty per cent of its net profit to employees. At the time this announcement was made no arrangements had been made as to any of the details of the plan. This is placing the cart before the horse. If the inauguration of profit sharing is contemplated, it is necessary that the employer should first decide what he wishes to accomplish by the additional payment, and then he should adopt the method which appears most likely to achieve this purpose.

SUMMARY

In short, profit sharing to be effective, whether it be general, unit, or individual, must begin with the payment of full going market wages or salaries, unless it be applied to those managerial employees whose compensation is not standardized. The payments must be substantial, and must be made in accordance with a definite plan, which is so worked out as to promote the particular purposes in mind. There are several important purposes which it is believed may be promoted by profit sharing. These purposes, together with suggestions as to the best methods of realizing them, are discussed in the following chapters.

CHAPTER III

PROFIT SHARING TO PROMOTE EFFICIENCY WHEN THE MEASUREMENT OF INDIVIDUAL RESULTS IS IMPRACTICABLE

SUPERIORITY OF "INDIVIDUAL RESULTS" PAYMENTS

ONE of the claims frequently advanced for profit sharing is that it will increase the application and effort of the employee. It is thought that he will prove more productive because of the knowledge that he will receive a portion of the profit made possible by his increased efficiency. Under appropriate circumstances there is some measure of truth to this claim. But in many employments and occupations more effective means of increasing personal efficiency may be found than by permitting the participants to share in the profits of the concern. Profit sharing, as usually applied in the form of general profit sharing, is only an indirect stimulus to increased effort, since the profits received by the individual depend not only upon his own productiveness, but upon the productiveness of all the other employees, that is upon the financial results of the business as a whole.

When the work done by the individual is capable of definite measurement, the most effective and direct way to promote efficiency is to use some basis of pay which rests upon the measurable results.

Salesmen may be compensated upon a basis of sales made or may be given a bonus in addition to salary for pushing sales beyond a certain point. Linotype operators may be paid by the amount of printed matter set up. Machine operators may be rewarded in accordance with their individual output. Clothing workers usually receive wages based upon garments cut out, fitted, basted or finished. The payment of coal miners is determined by the weight of their product. Cigar makers are almost always employed at piece rates. Similar methods are used in other industries, taking the form of a straight unit price or of a bonus for the accomplishment of certain measurable results over a fixed minimum. The superiority of such methods, when applicable, is recognized by some profit sharing establishments. The N. O. Nelson Manufacturing Company, one of the best known firms which shares profits with its wage earners, does not depend solely upon profit sharing as an inducement to effort. In departments where the work can be definitely measured, it uses a protected piece rate basis.

OBJECTIONS TO "INDIVIDUAL RESULTS" PAYMENTS

It may be granted that there is some force to certain objections sometimes raised against payments based upon individual results. For example, they may destroy the coöperative spirit, or they may overspeed employees, unless wisely directed and protected. They may cause workers to fail to maintain the quality of product, or salesmen to neglect small customers in their anxiety to secure large ones.

They may be responsible for a lack of interest among employees in the business as a whole. In other words there may be considerations of more weight than that of increased personal efficiency, which will render the use of such methods of compensation undesirable, even when applicable.

INDIVIDUAL RESULTS METHODS REQUIRE SAFEGUARDS

The method of "payments by results," if in the long run it is to prove really effective as a stimulus, will ordinarily have to be accompanied by some provision or assurance for protecting the employees against a cut in the piece rate, unit price, or bonus. If such assurance or safeguard is provided, resting upon a fair and carefully ascertained basic rate, it will prove more advantageous to compensate the individual for his direct contribution than to give him merely a participation in the profits of the business as a whole. For each man then knows that he is paid in proportion to his own efficiency, regardless of the output of other workers or the profits of the entire business.

SOME WORK CANNOT BE MEASURED

It is likely that the movement for the standardization of work will proceed much further than it yet has. The importance of investigation and analysis for the purpose of discovering proper units of measurement is just beginning to be recognized in many industries. But some of the work of the industrial world is and will continue to be of such a nature that the result of the individual's efforts cannot be

accurately measured in terms of output, product, sales, or any definite unit. This is because it is indistinguishably merged into a joint or collective product. Under such conditions the consideration of methods of compensation other than those based upon individual results becomes desirable or necessary. Such a consideration should include profit sharing.

DIFFICULTY OF STANDARDIZING GANG WORK

One condition under which profit sharing may prove effective is when men must work in groups or gangs, the results of their labor representing a joint product. When workmen are engaged under such circumstances it is obvious that they cannot be paid upon a basis of individual results. The usual course is simply to pay them a flat wage. But, if properly applied, profit sharing may be utilized to increase the effectiveness of their labor. When men work thus in gangs each man must "hold up his own end" if the work is to proceed advantageously, for one man's indolence or slowness may slacken the speed of the others. In this case general profit sharing may develop the interest of the participant in the outcome of the business as a whole.

OTHER METHODS OF COMPENSATION FOR GANG WORK

But where the total results accomplished by the group can be measured, compensation can be adjusted on a basis such as the "gang piece rate." This is used by the Fore River Ship Building Corpora-

tion. At its shipbuilding yards at Quincy, Massachusetts, those engaged in the work of riveting are paid a gang piece rate. The gang consists of four members. It is paid in accordance with the total number of rivets driven. This amount is then subdivided between the four members in certain ratios; the largest portion going to the riveter, and other fixed fractions going to the "backer up," the "handler boy," and the other member of the group. The Butler Brothers Company of Chicago offers a "gang bonus" to the men employed in its shipping room gangs. These gangs consist of five men each, and a bonus in addition to wages is divided among the members of the gang for the accomplishment of work in excess of a fixed task. The gang piece rate, however, as a method of compensation, is open to the same objections as the piece rate for individuals, and unless there is provision for safeguarding the unit rate, it is likely to result in an undesirable limitation of output. It can be applied only when the total amount of work accomplished by the group can be definitely measured. It may produce antagonism and dissension among the members of the group as to how the piece rate shall be subdivided among them. Under adequate managerial supervision the gang bonus principle may be applied, but its use is often attended with such difficulties that it may be more advisable to seek enhanced efficiency by the application of a wise profit sharing plan.

STANDARDIZATION FREQUENTLY IMPOSSIBLE FOR LARGE GROUPS

But in some occupations many men join their efforts, not in small groups or gangs, but in large numbers, performing different acts and functions, the result being a single commodity or service. It frequently happens that a business in many of its departments does not easily admit of standards for measuring efficiency. Such a business is that of the Procter and Gamble Company. This concern is engaged in the manufacture of soaps and similar products at Ivorydale, Ohio. The soap is placed in huge vats, containing many tons of material, and is then kept boiling for seven days. Under such circumstances it would be impossible to measure accurately the accomplishment or contribution of all the workmen in the various shifts employed in the making of one of these vats of soap. The Procter and Gamble Company meets this situation with a form of quasi profit sharing and stock distribution, which has been in operation for many years.

PROFIT SHARING BY GAS COMPANIES IN ENGLAND AND THE UNITED STATES

Some phases of the gas industry seem to be of a similar nature. Here are employed a large number of workmen, stokers, engine men, gas fitters, excavators, repair men, meter readers, and others, many of whom are engaged in the performance of tasks the measurement of which would be difficult or impossible. The joint results of their efforts is

the gas produced. This characteristic of the gas industry is perhaps one reason why it has been a fruitful field for the use of profit sharing. The "Report on Profit Sharing and Labor Co-Partnership in the United Kingdom," published by the British Board of Trade in 1912, states that twenty-eight thousand two hundred and forty-six employees of English gas companies were employed under profit sharing and coöperative plans. Probably the most widely known enterprise in England of this sort is the South Metropolitan Gas Company. Gas companies in the United States which employ the profit sharing principle are the New Haven Gas Light Company, the Grand Rapids Gas Light Company, and the Boston Consolidated Gas Company. The Grand Rapids Company pays all employees who have been in its continuous employ for one year dividends upon their wages or salary on a quarterly basis, at the same rate as is declared to stockholders. This at present is a cash payment of two and one-half per cent quarterly. The same method is applied by the New Haven Gas Company, except that the quarterly wage dividend is simply credited to an employee until it equals the value of one or more shares of stock in the company, when a certificate representing such shares is given to the employee. The Boston Consolidated Gas Company, like the South Metropolitan Gas Company of London, is operating on the "sliding scale," under which the rate of dividends which the company may declare increases with every reduction in the price of gas. The employees obtain dividends on their annual

wages, calculated at the same rate as the dividends for that year upon the stock of the company. These dividends are applied towards the purchase of the capital stock of the holding company, the Massachusetts Gas Company. The company says in an official announcement: "Under the so-called 'Sliding Scale Act' of 1906, by which the rate of dividends is increased one per cent for every five cent reduction in price of gas, the increase in the amount of premiums to be apportioned (to the participants) is dependent ultimately upon reductions in the price of gas. Reductions in the price of gas will come as the result of increases in the business and improved economies in operation. Consequently there is a very direct relation between the collective efficiency of the employees and the percentage of the apportionment, which should result in increased effort on their part to reduce the price of gas and thus increase their proportion of the profits." The table on page 25 summarizes the results of the plan up to June 30, 1915.

THE ELECTRICAL INDUSTRY

In respect to the difficulty or impossibility of measuring the efforts of many employees the electrical industry appears to resemble the gas business. The Brooklyn Edison Illuminating Company deals with the situation by paying fixed wages and salaries and adding to this a "wage dividend." This wage dividend is a percentage upon the employees' annual earnings, varying directly with the rate of dividends paid upon capital stock for the year, and with the

RESULTS OF PROFIT SHARING BY THE BOSTON CONSOLIDATED GAS COMPANY TO JUNE 30, 1915.

Period	Amount Apportioned	Number Profit Sharers	Average Amount Each	Per Cent of Wages	Shares of Stock Distributed	Average Wages
Ending Ten Months June 30, 1907	$26,029.15	553	$47.07	7	59	$896.57
Year Ending June 30, 1908	43,986.37	642	68.51	8	491	856.37
" 30, 1909	48,827.64	637	77.26	9	439	858.44
" 30, 1910	47,241.99	698	67.68	9	428	752.00
" 30, 1911	48,225.42	574	84.02	9	392	933.55
" 30, 1912	50,891.91	591	86.11	9	446	956.77
" 30, 1913	50,743.30	585	86.74	9	502	963.77
" 30, 1914	50,840.37	665	76.45	8	435	957.15
" 30, 1915	54,027.01	656	82.36	8½	525	968.92
Totals	$420,813.16	....	$676.20	.....	3717	
Average for eight years	$49,348.00	631	$78.64	8.68	457.2	$905.87 Average Weekly $17.42

Amount of Cash to Credit of Present Profit Sharers June 30, 1915	$24,518.26
Amount of Preferred Stock in Massachusetts Gas Companies to Credit of Present Profit Sharers — 3516 shares at market $89.00	312,924.00
Total Amount to Credit of Present Profit Sharers ..	$337,442.26
Average Number of Shares Held by Present Profit Sharers..	5.36

employee's length of service. These dividends are credited towards the purchase of the company's stock. The discussion of these stock plans as applied to the rank and file of workers is postponed until later in the volume. The methods used by gas and electrical companies are simply cited here

as examples of the effort to apply a form of profit sharing in certain industries where, on account of the nature of the business, the efforts of many workers cannot be, or have not yet been, measured or standardized.

DIFFICULTY OF MEASURING THE WORK OF THE MANAGERIAL GROUP

Perhaps the most important groups of workers whose efforts are practically impossible of measurement are the managerial staffs — corporation officials, superintendents, heads of departments, assistant heads of departments, and the like. Their work does not consist in following orders and is not routine in its character, but is largely executive or supervisory, calling for the exercise of judgment and discretion, upon which the success of any business largely depends. In a few such positions, such as that of sales manager, effort may be definitely measured. But for most of those exercising managerial functions, such as the chief corporation officials, purchasing agents, credit managers, employment managers, and those engaged in the advertising or accounting departments, the individuals' contributions cannot be precisely ascertained. Indeed, it is this very situation that accounts for the fact that most of the employees in positions of larger responsibility are placed upon flat salaries. But a flat salary may not be the most effective means of inducing effort. Of course when such employees are considerable stockholders in the enterprise, an additional inducement may not be

necessary, for they already have much at stake upon the success of the business. But when they are not important stockholders, as is often the case, their energy and zeal may frequently be increased by paying them a share in the profits of the business, or some portion of the business, in addition to their fixed salaries. Indeed, the assertion is warranted that those who occupy positions of large responsibility constitute a group to whom profit sharing is particularly applicable. Important considerations which unite in pointing to this conclusion are presented in the chapters which follow.

LOSS SHARING

The consideration of profit sharing as a means of increasing personal efficiency would be incomplete without a reference to "loss sharing." The most important advantage claimed for loss sharing is that an agreement to participate in losses as well as profits deepens interest and the feeling of responsibility in the business, by the amount of the personal stake involved.

THE BURRITT PLAN

An example of profit and loss sharing is the plan of the A. W. Burritt Company, which operates a wholesale and retail lumber business, at Bridgeport, Connecticut. There are about three hundred employees, who are animated by an exceptional *esprit de corps.* About one hundred and twenty-five of them, those most highly skilled whose work is not regarded as possible of standardization, obtain a share of the profits

after six per cent upon capital invested and other necessary allowances have been made, this amount being distributed among them in proportion to wages. The company, in its announcement, states: "For those employees whose duties are such as render it impracticable to measure or standardize their individual effort, but which require, in addition to faithfulness, an exercise of intelligent judgment, there should be some provision whereby they may participate, on an equitable basis, in the results of the business operations." It is optional with eligible employees as to whether or not they will become profit sharers. Those who avail themselves of the privilege agree to share in losses if any are sustained by the company. For the purpose of providing a fund from which to meet losses, ten per cent of the wages of participating employees is deducted from the weekly pay envelope. If losses should be sustained, the employee's proportionate share thereof is deducted from this accumulated reserve at the end of the year. If no losses are sustained his reserve, together with his share of profits, is paid to each employee at the end of the year.

There has never been a loss for the employees to share, and their accumulated reserve has always been returned to them at the end of the year intact, together with profits averaging six and three-quarters per cent on wages. But the management feels that the possibility that the participants might be called upon to share in losses has been one of the factors in making profit sharing successful. It is believed by the company that the enforced saving feature of

the plan is highly valued by the employees, and that the potential loss sharing has resulted in increasing their care, effort, interest, and economy.

ARGUMENTS FOR AND AGAINST LOSS SHARING

The advocates of profit sharing are by no means agreed that it is wise to accompany profit sharing with provisions for loss sharing. It is objected by some that if profit sharing is chiefly to be regarded as a payment or reward for added individual or group effort or interest, as we have consistently assumed, with the view to increase the profits or efficiency of the business, there is no justification for deduction from wages in the case of loss. These objectors maintain that if, after extra effort given and through no fault of the employee, the business incurs a loss, it is hardship enough that the employee must forego his anticipated share of profits. Again, it is pointed out by some that in times of business depression the wage earner is liable to suffer actual loss through curtailment of working time or discharge, with resultant unemployment. On the other hand, it is maintained by the advocates of loss sharing that paying to the employee a share in profits without asking him also to share in losses is essentially unjust and that profit sharing will operate much more effectively as an inducement to care, economy, and effort if the employee realizes that he will be asked to help share in the losses if any are incurred.

The successful operation for sixteen years of profit and loss sharing by the A. W. Burritt Company is not necessarily conclusive in regard to the use of

loss sharing. Whatever may be the theoretical considerations for or against this arrangement, it is evident that in the form of deduction from wages it has its dangers. Employees would be willing to become participants under such a plan and to permit a weekly deduction from their wages only if there were a large degree of confidence in the management. But this confidence might be misplaced.

SUMMARY

Profit sharing is not urged as a means of promoting individual efficiency when there is any basis for measuring and rewarding individual effort. But when "individual results" methods of payment are not applicable or desirable, profit sharing may operate successfully. The most important groups to which it is thus applicable are those engaged in gang work, or in special industries where the standardization of much of the work appears impracticable, as for example in the gas industry, and to a still greater degree those occupying discretionary or managerial positions. But this difficulty of determining personal efficiency is not the only reason for which profit sharing may be preferred to alternative methods of payment. There are other considerations which should be weighed.

CHAPTER IV

PROFIT SHARING TO PROMOTE EFFICIENCY WHEN THE LOCATION OF THE WORK MAKES CLOSE SUPERVISION IMPOSSIBLE

SCATTERED WORK

WHEN the location of the work is such that the maintenance of close personal supervision of the workers is impossible or impracticable, profit sharing may provide an incentive to greater effort. In some occupations employees must work away from the central headquarters; their tasks are not concentrated in one place or under one roof but must be performed at various points covering a wide area. Some typical workers coming within this group are traveling salesmen, delivery men, teamsters, erectors, and those engaged in many branches of the building trades. For employees working under these conditions, it is practically impossible to maintain the same degree of oversight as exists in a store or factory.

DISPERSED WORK SOMETIMES MEASURABLE

Even though employees are scattered, the difficulty in maintaining supervision does not necessarily lead to inefficiency if the work can be measured and compensated according to accomplishment. Subscription agents are paid by orders taken, collectors

upon a basis of collections made, and traveling salesmen according to sales. Coal mining is a business in which it is exceedingly difficult to supervise labor, and it was perhaps for this reason that one of the best known of the earlier profit sharing experiments was that of the Briggs Colliery in England. But it would be futile to introduce profit sharing in this industry with the expectation that it would prove the best inducement to effort. For in coal mining the results of each man's work can be measured and therefore coal miners generally work upon a system of piece work. In other words the principle developed in the preceding chapter, that the greatest incentive to efficiency is compensation based upon results, applies equally, whether the work is concentrated under one roof or is scattered. But where in dispersed work there is no measure of efficiency, profit sharing appears to offer a partial solution for the problem of remuneration.

SHARE FARMING

The difficulty of supervision, owing to the dispersed nature of work, is doubtless one of the facts responsible for the use of profit sharing in one of its earliest and most common forms,—share farming. The owner of a farm who rents it for one-half or one-third the crop is, in a sense, sharing profits. He provides the capital or most of it in the form of land, the tenant does the labor, and the product is divided. It might appear that the owner could more profitably hire a workman to cultivate the farm on a straight wage, for then the owner alone

would prosper by an especially heavy yield. But the difficulties of maintaining close supervision over the operations of the farm operator are large. In order to do this effectively the owner would have to accompany him regularly to the various portions of the farm, which of course would be impracticable. Therefore, in share farming a form of profit sharing is used to provide the farmer with an incentive to diligent and effective labor. This system has proven successful where farmers have not sufficient capital to pay cash rent. It may be questioned whether share farming is true profit sharing, since ordinarily the tenant supplies a part of the capital in the form of horses, machinery, and the like, and since ordinarily he is not paid a guaranteed wage. But whether share farming is profit sharing in the strict sense of the term is immaterial. It certainly does represent at least a partial application of the profit sharing principle, in an industry where the difficulty of proper supervision renders a flat salary basis almost impossible.

TEAMSTERS AND DELIVERY MEN

The difficulty of supervision, clearly seen in farming, also exists in many other industries. Drivers of delivery wagons and teamsters of nearly all kinds must do their work removed from personal direction. Sometimes duties of more or less importance are placed upon delivery men in addition to the mere delivering of packages and parcels. They may be entrusted with making immediate collections for parcels delivered, making periodic collections from

regular customers, or soliciting new business. When such functions are performed by delivery men or teamsters their performance is usually measurable. Therefore it is probable that some system whereby the driver is compensated in direct relation to his results will prove more effective than sharing in the general profits of the business. Some interesting methods of thus remunerating delivery men have been worked out. Paying commissions to drivers upon new customers or trade secured, upon collections made, or upon receipts from the route, is a common practice among ice, milk, and coal companies.

INDIVIDUAL PROFIT SHARING FOR DRIVERS

When the accomplishment of the driver's results can be measured best by the profits produced by him, on his route, the offer to share such profits may prove very effective. The Consumers Company of Chicago, dealing in fuel and ice, has such an arrangement with its drivers. The men who are in charge of ice routes are paid twenty-five per cent of the profits of their routes. The ice is charged to them at the price at which it would be sold to independent dealers coming into the yards for ice. A charge of a definite amount per day is made for the use of each horse and wagon, and the driver's salary and that of his helper or helpers is charged against the expenses of the route. This plan causes the drivers to take good care of existing customers and constantly to seek for new ones. Inasmuch as they are charged with the expenses of the route, the

drivers endeavor to prevent waste of ice and to employ the fewest possible helpers. Individual profit sharing is especially suitable in such a business since each wagon or route constitutes an independent unit. There can be little doubt that in many cases some such plan would prove helpful in overcoming the difficulty of supervising the scattered labor of drivers on regular routes.

LIMITATIONS OF PROFIT SHARING FOR TEAMSTERS

When delivery men are not intrusted with any such measurable work but are expected merely to cart, deliver, load and unload goods, where, when and as instructed, payment upon a basis of results becomes less possible. Under such circumstances the only basis of distributing profits would be the profits of the business or perhaps of the department. But the power of ordinary delivery men to affect profits in most classes of business is slight, their relation to profits is remote, and the isolated nature of their operations makes it difficult to educate them in the essentials of general profit sharing or to develop coöperation. These circumstances are such as to forbid the expectation of large results in the way of increased efficiency from sharing general or departmental profits with teamsters or delivery men.

THE BUILDING TRADES

In certain phases of the building and repair trades profit sharing may produce appreciable results. In many such lines the maintenance of supervision is difficult. Workmen are sent out from central head-

quarters to work individually, by twos, or in small numbers. This is frequently true of house painters, wall paperers, electric wirers, plumbers, and the like. The situation is further complicated by the fact that in many of the building trades, particularly in the repair branches, the standardization of work is often not feasible.

THE MAISON LECLAIRE

It is significant in this connection that the Maison Leclaire, of Paris, which holds the longest record for successful profit sharing, is a concern engaged in house painting and decorating. It is asserted by those who have investigated this establishment, which shares profits on a generous basis, that profit sharing has led the workmen to greater effort, increased efficiency, and particularly to greater care in the mixing and application of paint. These are results ordinarily difficult to secure because of the impracticability of maintaining close personal supervision. They have proved exceedingly valuable to the firm in establishing a reputation for high grade workmanship. Foster Sons and Company, of Padiham, Lancashire, England, a firm engaged in constructing houses, also has a generous profit sharing plan in operation.

DIFFICULTY OF SUPERVISION IN BUILDING TRADES

In the building trades it is often impracticable, on account of expense, to have a competent foreman or superintendent on the smaller jobs. Under these circumstances profit sharing with the workmen may

partially overcome the difficulty in supervising them. Even when men in the building trades work in small gangs under the direction of a working foreman, it would seem that profit sharing should be advantageous, for as a rule the degree of supervision obtained is somewhat lax and incompetent, since the foreman gives but part of his attention to supervision. If the gangs are of sufficient size and the work is of sufficient importance to justify the employment of a full-time foreman or superintendent on each job, profit sharing may not increase efficiency to the same extent. When used among men who go from one job to another, working for an employer who takes jobs on contract and whose work is thus definitely divided into separate units, it seems likely that profit sharing would prove more effective if it were localized to each particular job. The profits on each job could then be shared by members of the group. So far as known this method has never been used.

PROFIT SHARING WITH THE REGULAR STAFF

In many branches of the building trades, where work is undertaken upon contract, profit sharing which would include all employees would be impracticable, because the make-up of the contractors' labor force is constantly changing. Men doing certain work are hired temporarily by one contractor, are soon "laid off" and then seek a job with another. But ordinarily each contractor has his own organization of workmen regularly employed. This permanent staff may present a fruitful

field for profit sharing. The Heller Brothers Company, building contractors of Youngstown, Ohio, has a plan in which all department heads, superintendents, foremen, subforemen, the office staff, and practically all the regular employees participate. The workmen who are employed temporarily are not participants. The company reports a marked gain in efficiency since the introduction of its plan. It states that the foremen, and others working on various jobs, now send their orders and requisitions for materials to the central office in ample time to enable the office to get the materials on the job when needed. This promptness, usually difficult to bring about in a contracting organization, now obtains because the participants realize the effect upon profits of time wasted in waiting for the delivery of materials. The company also finds that the plan makes the men desirous of remaining in its employ. It is thus enabled to maintain its working organization intact. Bing and Bing, contractors, of New York City, have a somewhat similar plan. They distribute thirty-five per cent of their annual profits among permanent employees, such as superintendents, assistant superintendents, foremen, timekeepers, and office employees.

TRAVELING SALESMEN

Traveling salesmen constitute another group whose efforts cannot be closely supervised. Constantly away from the central office, it is difficult to control strictly their use of time, their conduct, their methods of doing business or of representing the house, or

the propriety of their expenditures. The difficulty of closely supervising the efforts of traveling salesmen, and the varied nature of the duties which they must perform, have led to many varieties of compensation plans. What system will prove most effective depends largely upon the nature of the business and of the territory and the functions of the salesmen.

TYPES OF PROFIT SHARING FOR TRAVELING SALESMEN

Among the newer plans of compensating traveling salesmen is profit sharing. This is now used by a number of firms, and it has been demonstrated that under certain conditions it possesses some advantages. There are three leading methods by which profit sharing or pseudo profit sharing is used among traveling salesmen. They are sometimes permitted to share on a predetermined basis in the profits of the business as a whole, that is to participate in general profit sharing. Or they may be permitted to share in the profits arising from their own sales or territory. This is individual profit sharing. Or they are sometimes given a share in the profits of the enterprise, the amount of which is not determined in advance upon any definitely fixed basis, but is decided at the end of the business period at the discretion of the management.

There are but few concerns which distribute among their salesmen a share in the profits of the business as a whole. A machinery merchandising establishment in Chicago has followed the practice of paying

its salesmen a straight salary plus a share in the profits of the business as a whole. The Dennison Manufacturing Company, which shares its general profits, as described fully in Chapter IX, includes its senior traveling salesmen as participants. Most firms which have introduced profit sharing among salesmen have utilized schemes whereby profits are shared simply upon the sales made by the individual salesman or upon the profits arising from his territory. Among the many firms which have introduced this form of individual profit sharing may be mentioned Seeman Brothers of New York; J. F. Humphreys and Company of Bloomington, Illinois; Sprague, Warner and Company of Chicago; the Klauber Wangenheim Company of San Diego; Francis H. Leggett and Company of New York; Parsons and Scoville Company of Evansville, Indiana; the Beck and Corbitt Iron Company of St. Louis, and others.

Paying salesmen a portion of the profits yielded by their sales or territory offers certain advantages over other types of compensation. It is not to be universally urged. Whether its introduction will prove wise depends largely upon the nature of the particular business, the character of the internal organization, and the functions which the salesman is expected to perform.

WHEN FIXED PRICES ARE NOT FEASIBLE

One of the situations which gives a favorable opportunity for profit sharing among traveling salesmen is when it is impracticable to maintain

fixed prices, as in the case of groceries, canned goods, teas and coffees. In such lines traveling salesmen are ordinarily privileged within a certain range to make their own prices. The temptation to cut prices in order to get business is sometimes very strong. Such action may produce a commission for the salesman, although it may show no profit or even a loss for the house. Individual profit sharing may obviously here operate to prevent the salesmen from unnecessarily or unduly cutting prices. That it will do so is indicated by the experience of a number of concerns in different lines of business.

WHEN SALESMEN INVESTIGATE CREDIT

Again, salesmen who are upon a commission basis are sometimes dangerously careless in the extension of credit. The lure of easy sales leads to slackness in making proper investigations regarding the customer's financial standing and in making recommendations regarding the granting of credit facilities. Realizing the temptation which the salesman on commissions is under, there are many houses which expect little or nothing from their salesmen in the way of credit investigations and reports. These concerns are so organized that their credit departments assume the entire responsibility for investigating the customer's standing, and for deciding whether or not credit should be extended to him. There are many other houses, particularly the smaller ones, which use the salesmen for inquiries as to the customer's standing and which must be guided largely by this information. When salesmen are so used,

profit sharing may prove valuable in making them conservative upon the subject of credit. One firm with salesmen scattered throughout the entire United States advises that participation in the general profits has rendered its salesmen much more careful in making credit investigations and reports.

WHEN SALESMEN COLLECT

In several cases profit sharing concerns use their salesmen to exercise collection functions. Ordinarily salesmen do not act as collectors for their house, and do not wish to, but occasionally their services can be utilized in this direction. Salesmen upon a salary or a commission basis are usually unwilling to act in a collection capacity for the house. But when a part of their compensation rests upon the profits produced by them, they are more willing to coöperate in this respect, realizing that such of their sales as are not paid for will diminish their profits. One of the largest grocery concerns in the West, which pays its traveling salesmen upon a basis of individual profit sharing, has a clause in the profit sharing contract obligating the salesmen to assist in collecting doubtful or delinquent accounts which may arise in his territory. In explanation of this contract, the company writes: "The purpose is to obligate salesmen, who share in the profits earned by them, to assist us in collecting doubtful or delinquent accounts, which occasionally is quite important, for the reason that a debtor whose account was in suspense might be in a position and very willing to make small payments in installments

for the purpose of canceling his indebtedness, and the salesman who visited the town could call upon his customers for this purpose and of course should be willing to do so." Another firm which shares profits on a similar basis with its salesmen explains that while the collection of accounts is supposed to be done entirely by the financial department, yet when a customer falls behind, it is found useful to get the salesman to help with the collection. This the salesman is glad to do, because if an account is not paid, his profits are correspondingly lessened.

If a concern has a well-conducted credit department with its own machinery for investigation and places little reliance upon the salesmen either as to credit investigations, reports, or collection of accounts, profit sharing for salesmen would of course depend upon other considerations.

WHEN THERE IS A MARKED DIFFERENCE IN THE PROFITABLENESS OF VARIOUS LINES

There is usually a great difference in the profitableness of various lines of commodities sold by the same firm. Ordinarily it is advantageous to the house to have the salesmen push the most profitable lines, but upon a straight commission basis salesmen are not always regardful of the profit yielded. A salesman who receives a per cent of the profit on his transactions is much more likely to develop strong selling points and special selling ability on the most profitable lines, paying somewhat less attention to the less profitable ones.

True, salesmen are sometimes induced to push

the more profitable lines by classified commissions, under which the goods which yield a higher profit carry a higher commission. This arrangement is most likely to prove successful if the lines are not too numerous and if a simple classification is possible. If, however, the lines are numerous, yielding varying percentages of profit, and if changes in classification are therefore frequent with shifting costs or demand, the salesmen are likely to be irritated by what they regard as arbitrary alterations in their basis of compensation. But if they are paid a definite percentage of the profits yielded by their business, a rise in cost, or a change in the profits produced on the commodity, does not require a shifting or re-arranging of the basis of compensation. The sales force is informed of the change in cost, or base price, or the change in profits, and governs its activity accordingly.

PROFIT SHARING MAY DEVELOP A FEELING OF PARTNERSHIP AMONG SALESMEN

Perhaps the most valuable consequence of sharing profits with salesmen is the development of a sense of partnership with the concern. The value of this feeling cannot be measured definitely in terms of dollars and cents, but it may manifest itself in countless ways and on numerous occasions. It may express itself in increased interest in the business, loyalty to the house, improved relations between the customers and the salesmen, and in a tendency toward a greater permanency of service among the salesmen. The salesman who shares in the profits

of the house is more likely to utilize opportunities for advancing the interest of the house, to observe openings for new sales campaigns, to impart to the management or to other salesmen new selling points. He is likely to think of himself as a real partner, and he is placed in a position where that feeling is likely to count to a very great degree. In many concerns, the salesman is the only representative of the business who comes into personal contact with the customers.

The good-will account of a business house which has a large established patronage is a very real asset, and its maintenance depends in large measure upon the relation and attitude of the salesmen toward the customers. When a salesman is sharing in profits his attitude toward the customers is likely to prove entirely different from that of the salesmen upon salary or commissions. This improved attitude expresses itself in furnishing information to customers, adjusting their complaints, in establishing cordial personal relations, and endeavoring to build up a permanent buying clientele. It should be possible to develop this partnership attitude of mind among the salesmen under either individual or general profit sharing.

ADVISABILITY OF GUARANTEED SALARY AS WELL AS PROFIT SHARING

Nearly every house finds itself at times with goods on hand which it is desirable to dispose of at once, but which must be sold at less than normal profit, or even at a loss. The concern may be over-

stocked, it may have paid too much for the commodity, the price of the commodity may be falling, or the goods may be rapidly going out of style. If goods cannot be sold at a good profit, is it likely that salesmen who are paid on a basis of individual profits will push them? It is obvious that if they are paid solely by profit payments, they will not. But if they are also paid a guaranteed salary of fair proportions, and if proper relations prevail between the house and the salesmen, it ought not to be impossible to secure their coöperation in such situations, provided they are not too frequent. Salesmen should be given to understand that the firm guarantees a fixed salary whether the profits on the territory yield it or not, and that in return it expects certain consideration for the interest of the firm when special occasions arise.

PROFIT SHARING FOR SALESMEN SOMETIMES INADVISABLE

It must be acknowledged that there are some circumstances under which a staff of salesmen operating on a straight salary basis can be directed more advantageously than a force which participates in profits. The house, for instance, may have a certain article to introduce on which at the outset the sales may be small and the profits slight, although good profits are ultimately expected. It probably would prove difficult to get the profit sharing salesman to take a long-run view of this situation, and under such conditions it is likely that profit sharing would not prove as effective as a salary. If the

concern is largely engaged in the introduction of new articles, or if it features the building up of a demand for new commodities, one after another, the introduction of individual profit sharing would probably be inadvisable. Likewise, if a business is dealing in lines which are subject to marked fluctuations in the purchase price, individual profit sharing with salesmen might prove undesirable, since profits will be influenced much more by the purchasing department than by any ability or activity of the salesmen. In other words, in the proportion that purchasing rather than selling is the important end of the business, profit sharing with the salesmen is likely to be ineffective.

METHODS OF PROFIT SHARING WITH SALESMEN. PERCENTAGE OF PROFITS ONLY

There are many methods of paying salesmen upon a basis of individual profits. A common system is to pay as the sole compensation a stipulated percentage upon all profits arising from sales, with no guarantee of salary, and with traveling expenses defrayed entirely by the salesman out of his earnings. This method seems to be in widest use among wholesale grocery houses. The percentage of profits paid by these houses appears to range from thirty-three and one-third to forty per cent for out-of-town salesmen, where the traveling expenses are heavy, and from thirty to thirty-three and one-third per cent for city salesmen. The contracts usually provide for the payment of a stipulated percentage of the net profits, after deducting all

losses and charges of every kind, the cost price or base price of the various lines of merchandise to be given by the company, and the net profits to be arrived at under the accounting system used by it. Mail orders from the salesman's territory are usually included. Ordinarily, although not always, the company in fixing the cost prices includes a certain uniform percentage for all general and overhead expenses.

Some companies agree to pay salesmen a certain percentage of the profits upon their business, but give them no information as to the cost or base prices of the goods sold, nor as to the method by which the profit is computed. Under such plans the salesmen are working in the dark, and the best results cannot be expected. As a rule, unless the company is willing, and unless conditions render it safe, to permit the salesman to have adequate information regarding costs and profits on the goods which he sells, it will be better not to use individual profit sharing.

FIXED SALARY WITH A SHARE OF PROFITS

Other concerns pay a fixed salary, with a share in the profits arising on the salesman's business. This guaranteed salary is usually supposed to be sufficient to take care of expenses. It is customary for the amount received in the form of profits to be an addition to the salesman's salary. But in some cases the guaranteed salary is deducted from the salesman's total share of profits. For example, a large hardware firm pays some of its salesmen a

share of thirty-three and one-third per cent of the profits upon business secured, but guarantees $1800. Thus if the salesman shows a net profit for the year of $15,000 his percentage of this is $5000. Having received $1800 already as salary, his profit sharing payment at the end of the year will be $3200.

SALARY PLUS SHARE OF PROFITS — IF THEY EXCEED STIPULATED AMOUNT

Other firms pay a guaranteed salary with a share in the profits produced, provided these profits exceed a certain stipulated amount. This method represents, in a sense, the application of scientific management's task and bonus principle to salesmen, the bonus taking the form of a share in profits. A jewelry firm in New York pays salaries of $1200 and also pays the traveling expenses of its salesmen. When profits on sales reach $5500, the salesman begins to participate and receives twenty-five per cent of all profits made over and above the necessary $5500. A hardware house in Chicago operates upon a somewhat similar basis, except that participation begins when the profits on sales reach $1000. A plumbing supply house in Philadelphia pays each of its traveling salesmen a salary plus one per cent on the sales over a stipulated amount, plus a conditional share in the profit upon his business if it exceeds a certain percentage of his total sales.

ARBITRARY ALLOTMENT OF PROFITS FOR SALESMEN

Some business enterprises use still a different method of so-called profit sharing for their salesmen.

They are paid a flat salary with the understanding that at the end of the year an additional bonus payment may be paid to them, the amount of which is to be determined by the management, with due regard to their efficiency and what they have earned for the house. Several establishments use this method, and it has been indorsed as a method of paying salesmen by the officials of at least one national association of jobbers. The president of a large corporation operating such a plan writes as follows: "The president of the company reviews, after the close of the business year, the results which the company has achieved in the territory of each salesman. He takes into account everything that has been done by that salesman during the year; the conditions of the country in which he travels, any special work the salesman has been called upon to do, the results of which might not show in the usual way in the records, the extent to which the salesman's work was free from the many kinds of troubles which come from a lack of thoroughness and efficiency in such work, and after weighing all these things carefully in the scale and taking into consideration the salary drawn by the salesman in question, the president sets aside from the profits of the company's business an amount which he deems a fair and equitable recognition and compensation of that man's efforts over and above what was paid him as a salary. The amount thus determined is paid to the salesman voluntarily as extra compensation."

OBJECTIONS TO SUCH PLANS

Such an arrangement is not profit sharing as defined at the beginning of this study. There are several objections to the plan, regardless of the name under which it may go. In the first place, it rests upon the assumption that the management will deal as fairly and liberally with the salesmen after the business has been obtained and the profits made as it would beforehand, with the hope of getting the business and profits. Such an assumption is not always justified. Further, even though the management might conscientiously endeavor to be fair, the salesman might differ in opinion with the management as to its decision. In such a case, since there is no fixed plan to be followed, there is no satisfactory way to determine what is fair. As there is no appeal to an objective standard settled by previous agreement, the method may give rise to disappointment and resentment among the salesmen. Moreover, it is not a businesslike arrangement. The company would not sell its commodity at a stipulated price, with the understanding that if later that commodity were found to be worth more, it would be entitled to an additional payment, the amount of which would be at the discretion of the purchaser. It ought not to expect its employees to enter into an analogous arrangement. These objections apply with equal force to such arbitrary methods of compensation applied to any group of employees.

SUMMARY

The difficulty of supervision, occasioned by the dispersed nature of work, renders profit sharing peculiarly adaptable to some occupations, especially among such groups as teamsters and delivery men, those engaged in certain of the building trades, and traveling salesmen. Profit sharing is not urged as being always useful for any of these groups. In each case a study of its applicability must be made. General profit sharing appears as a rule to be the type most available for use in the building trades, whereas individual profit sharing can be used, within narrow limits, for some delivery men, and within much wider limits for traveling salesmen. Such profit sharing for salesmen is not incompatible with the principle laid down earlier in this volume, i.e., that profit sharing is not to be used when the results of the individual workers can be measured. For frequently the best measure of salesmen's contribution is the profits created by them, or arising from the business secured by them. This is because their activity affects not only the volume of sales, but may also influence credits, collections, complaints, and adjustments, traveling expenses, and the margin of profits on goods sold, and because the total result of such factors is best reflected by the profits produced.

CHAPTER V

PROFIT SHARING TO PREVENT WASTE

INFLUENCE OF EMPLOYEES UPON SAVINGS

IT is said that a factory owner once stated to Robert Owen, the British manufacturer and social reformer: "If my men liked they could save me £10,000 a year by better work and the avoidance of waste," to which Owen replied, "Then why don't you pay them £5000 a year to do it?" It is generally recognized that great waste results from injury to materials, carelessness with machinery, tools, equipment, and office supplies, the failure "to watch the leaks" and to promote small economies. The opportunity for waste is particularly large in those industries in which employees are intrusted with valuable materials to be worked up by hand processes. Profit sharing has been regarded by many as a means whereby employees might be given an incentive to practice economy and saving, to lessen the waste and destruction of materials and the breakage and depreciation of tools and equipment. Ansurin Williams, a prominent English advocate of profit sharing, says:[1] "This saving of waste is the economic basis of profit sharing." It has frequently been said that the success of the Maison Leclaire, the great profit sharing establish-

[1] "Copartnership and Profit Sharing" 1913 — Henry Holt & Co.

ment of Paris, referred to in the preceding chapter, is in part due to the fact that the house painting and decorating business, in which this concern is engaged, is one in which there is large opportunity for the workmen to prevent unnecessary waste.

PROFIT SHARING MOST EFFECTIVE TO PROMOTE ECONOMIES AMONG THE DISCRETIONARY EMPLOYEES

It is probable that profit sharing may help to promote economies, especially among those groups of employees which are in position to realize that profits can thus be increased. Profit sharing will therefore prove most effective in the accomplishment of this purpose among managers, superintendents, heads of departments, and managerial employees generally. Since their opportunity to make economies is large, they may the more readily be induced by profit sharing to exercise the watchfulness and care which checks the waste in administrative expenses, as well as in materials, and thus reduces the costs in their department.

In practice, one important consideration which frequently leads to placing such employees on a departmental profit sharing basis is their influence in the reduction of departmental costs. Were it not for this factor, they might at times be more advantageously paid upon some other basis, such as sales or output. But profit sharing provides an incentive for the reduction of costs which is not provided by payment upon volume of sales or of output. Mercantile establishments report that when those in charge of departments are upon a departmental

profit sharing basis they manifest an unusual alertness in not permitting old goods to accumulate or to be carried over at a loss. Managers of branch stores in chain systems and of branch factories are also put on a unit or departmental profit sharing basis, largely because they can greatly influence costs by the elimination of the wastes which arise from unwise buying, lax methods, and inefficient discipline or supervision of help. Firms employing traveling salesmen upon a profit sharing basis find that this leads to reduced expenditure in the traveling expense account.

MERITS OF OTHER METHODS OF PREVENTING WASTE AMONG THE RANK AND FILE

There are other methods of preventing waste which may be more efficacious for the rank and file, though many of the devices which have been used for this purpose have been so misused and abused as to bring them into discredit. The system of levying penalties and fines, to be deducted from the employees' wages, for defective workmanship and spoiled materials, has been bitterly opposed by labor organizations. This opposition is in many cases justifiable, since ordinarily the foreman is the sole judge as to the defect and sometimes uses his power arbitrarily and unfairly. Fines and penalties are negative measures. Positive measures usually prove more successful. Of these the most important is effective management.

Much waste is due to the failure of the management to exercise properly its functions of planning

and supervising. A Boston firm, for example, discovered that a large amount of fine binding leather, when about to be worked up, proved to be unfit for use. Investigation showed that the leather while awaiting use was stored under the bench and was used by the workmen as a foot rest. In many other establishments the plant waste could be greatly reduced by the exercise of a more vigilant eye by the management. In some concerns a separate department has been created for the particular purpose of preventing waste. The Westinghouse Company maintains a separate department whose particular function it is to reduce the waste and to develop methods of utilizing what otherwise would be unused. In the manufacture of paper tags the Dennison Manufacturing Company has worked out and established a "standard waste" which is not to be exceeded by the operatives. The Strathmore Paper Company bases its entire bonus system upon the reduction of waste in the amount of materials used by employees.

ELIMINATING WASTE WHEN MATERIALS CAN BE MEASURED

When the materials used can be definitely measured as in the two instances last cited, or when the defects or wastes for which the individual is responsible can be definitely ascertained (without the danger of an arbitrary use of power), remuneration based directly upon individual results will be more effective than profit sharing. A cutter in a clothing factory might find an inducement to effect savings in the cutting

of material through participation in the general profits of the business. He would, however, find a much more powerful inducement through some plan whereby he would be rewarded directly for all savings effected by him, regardless of the profits of the business. A textile establishment which has recently introduced profit sharing states that it hopes for important results in the elimination of waste, particularly in the dyeing branch of the business, since those engaged in the dye house have a large opportunity to prevent the spoiling of material and waste of dye stuffs. If it should prove practicable to establish a "standard waste" or to compensate these employees directly for a reduction in the amount of material spoiled, so that each workman would be sure to gain directly by his care, such a method would appear to offer a more powerful inducement to economy than profit sharing.

PLAN MUST BE PROPERLY DEVISED

It may happen that no method of standardizing waste or of measuring individual savings is practicable. Under such circumstances what may be expected of profit sharing as an inducement to economy among the rank and file? At the outset it may be said that the profit sharing plan must be devised in such a way as to secure the end desired. The president of one corporation expressed keen disappointment that the company's plan had failed to encourage economy, although this had been one of the results most earnestly hoped for. Investigation indicated the futility of the company's plan to

bring this about. The company had announced that the employees would be paid the same rate of dividends on wages as that paid upon stock. This had regularly been six per cent and the announcement said "It is expected (it) will be six per cent." In this same announcement it was stated: "The company desires to interest you in its financial results and is willing to share its profits. It hopes in return that the profits will be increased by the employees taking a personal interest in the continued success of the business, leading them to exercise the greatest possible care to prevent bad work and waste of time and material." Following the first year's experiment the company issued another statement definitely stating that for the following year the dividend rate would be eight per cent instead of six. The president complained that the men did not "appreciate" the plan sufficiently to try to prevent waste. The fault here was with the management. It provided no *incentive* to prevent waste. With a wage dividend of six or eight per cent, or *any* per cent, definitely announced in advance, there is no incentive to special efficiency or the prevention of waste. What should be predetermined is not the amount of a wage dividend, but the percentage of profit if earned. It is only when the profits available for distribution depend upon the earnings for the current period, that there will be any direct incentive either to effort or to the reduction of waste.

LIMITATIONS ON PROFIT SHARING TO PREVENT WASTE AMONG THE RANK AND FILE

But even if the plan be carefully devised, it must be admitted that the power of profit sharing to encourage the elimination of waste among the rank and file is more questionable than it is among the managerial group. Some employers report that profit sharing has a decidedly beneficial effect in this direction, even among the rank and file. The A. W. Burritt Company of Bridgeport and the Ballard and Ballard Company of Louisville feel that their wage earners, because of profit sharing, are really interested in making savings and economies. But it is significant to note that in each of these establishments the number of participants is less than two hundred. It is difficult to imagine any large interest in the promotion of economies throughout a profit sharing establishment such as that of the Eastman Kodak Company, with its approximately seven thousand employees. When the number of participants is large, the influence upon profits of any economies which the individual workman may effect is so slight that profit sharing would not be likely to operate strongly as an inducement in this direction. In smaller establishments or among a smaller number of participants where the individual's savings may exert a larger relative influence upon earnings, and where a coöperative spirit can be more easily established, larger results might be looked for. Even among such small groups much would depend upon the nature of the

work to be performed, since the opportunity of the workman to be either wasteful or economical obviously varies with the character of his employment and with the equipment and material which is intrusted to him.

SUMMARY

Investigation and inquiry among the plants sharing profits with their wage earners indicate that in most cases the management does not feel that profit sharing has its largest importance in encouraging savings and economies. In some cases the reduction of waste was regarded as one of the valuable supplementary results. But few if any employers would justify profit sharing among their wage earners solely because of its power to prevent or lessen waste. On the other hand, those concerns using individual, departmental or general profit sharing among employees in the managerial or more responsible positions, where the participants have a large opportunity to influence costs, are quite generally of the opinion that participation in profits is an effective inducement to the reduction of costs and the elimination of wastes.

CHAPTER VI

PROFIT SHARING TO PROMOTE STABILITY OF LABOR

UNDESIRABILITY OF SHIFTING LABOR FORCE

THE last few years have witnessed an increasing realization of the expensiveness of a large and rapid labor "turn-over." In their anxiety to secure rapid turn-overs on capital and merchandise, many business men have lost sight of the fact that the rapid turn-over taking place in the labor force was eating into profits. The departing of employees to seek employment elsewhere when frequently they do not better themselves, and the filling of their places by employees who are in no wise superior to them,— this is a process which is constantly in operation in the industrial world. And for the employer it is a costly process. When a vacant place is to be filled a new worker must be selected, and even though the new employee be a skilled workman, it takes a considerable period of time for him to familiarize himself with his new employer's methods and to learn to fit into the new organization. During this period of adjustment the employee not only works at less than his normal efficiency, but he also requires a special expenditure of time, supervision, and instruction from the other members of the organization. One employer estimates by careful analysis that it costs him $100 for each change

made in his staff of mechanics. Another reports positively that each change among his laborers costs him even a larger amount. Not only is this constant shifting expensive to the employer, it is also costly to the employee. The change may be due to dissatisfaction, to a whim, to a disagreement with a superior, to a dislike for a foreman, or to the fact that the employee has the "moving" habit. It frequently does not result in any improvement in the workman's condition and may mean the loss of opportunity for promotion in his original position. While a shifting labor force in the lower paid ranks, where places can ordinarily be easily filled, is costly, it is an even greater loss in the higher paid ranks, where positions require specialized abilities, not readily replaced. Here an employee by withdrawing may disarrange a whole organization. It is this situation which profit sharing may assist in improving, although, it is hardly necessary to add, it is not the only means of stabilizing the labor force.

PROFIT PAYMENTS INCREASING WITH LENGTH OF SERVICE

Various modifications in the details of profit sharing plans are devised to promote length of service. It may be provided that the share of profits paid to the participant shall increase in proportion to his length of service. The Edison Electric Illuminating Company of Brooklyn provides that those employees who have been in the employ of the company for two full years shall receive a percentage of their salary or wages equivalent to

one quarter of the rate of dividends paid on the capital stock for the year, to those who have been with the company three years a percentage equivalent to one-half of the rate of dividends on stock for the year is paid, four years service brings a percentage equivalent to three-quarters of the rate of dividends on stock, while those who have been in the company's service five years or more are paid the same percentage on their salary or wages as is paid to shareholders on the capital stock of the company.

QUALIFYING PERIODS

Such a provision is unusual. Most profit sharing firms do not discriminate between participants according to the length of their period of employment with the company. But it is usually provided that employees may not become participants until after having served a preliminary qualifying period. This period is ordinarily one year. This is the period required by the A. W. Burritt Company, the Procter and Gamble Company, the Boston Consolidated Gas Company, and most other profit sharing concerns. With the Simplex Wire and Cable Company it is necessary to have twenty-six months of continuous service in order to become a profit sharer. The Dennison Manufacturing Company requires a minimum period of five years. In the latter case the long qualifying period is not simply to promote long service but also to familiarize the profit sharers with the business, for they have entire control of the company. One purpose common to all these qualifying periods is to exclude casual workers from

participation in profits, but the chief aim is to induce the worker to remain for the initial qualifying period. Once he has participated in profits, reliance is placed upon his desire to remain a profit sharer.

THE TIME OF PROFIT PAYMENTS

Sometimes the date upon which profits are made payable is fixed in such a way as to encourage length of service. An executive of a profit sharing establishment engaged in the building business pointed out that its plan induced length of service because profits were paid on February first. He stated that this method tended to retain until that date employees who otherwise might have quit during the latter part of the year, and, as work is generally slack and the demand in the building trades slight for some time following that date, the employees seldom leave the firm. The same principle is applied by several candy manufacturing firms in Boston operating so-called profit sharing plans. They distribute an annual bonus to their employees, calculated upon wages. This bonus is made payable January first. The fact seems to be that this bonus is paid at this particular time to hold young women employees through the holiday season. Boston is a great department store center, and the demand for saleswomen during the holiday season is particularly brisk. By this bonus, made payable only on January first for those who have been in their continuous employ for the preceding year, the candy factories protect themselves against losing their employees during this season.

THE DEFERRED FEATURE

Whatever the variation in details may be, the power of profit sharing to stabilize the labor supply rests upon two factors: (1) its deferred features and (2) the payment of profits, in addition to the regular going market rate of wages. The deferred feature refers not only to the preliminary qualifying period, but also to the fact that profits are usually distributed annually and forfeited by those who leave the employ of the concern previous to the date when profits are due to be paid. Many employees are naturally reluctant to sacrifice their profit share by leaving before the date of payment. One firm reports that stabilizing the labor supply is the chief result obtained from its plan rather than any increase in efficiency. Here the employees were largely immigrants, principally Armenians and Greeks. Every spring the management had been seriously inconvenienced by the departure of large numbers of these foreigners to go out as peddlers, returning to the factory with the arrival of cold weather. Since the inauguration of profit sharing most of them remain at their jobs throughout the year so that they will not lose their rights as profit sharers.

THE SEARS ROEBUCK PLAN

In some cases the participation in the benefits is deferred for a much longer period than one year. Under the plan announced on July 1, 1916, by Sears, Roebuck and Company of Chicago, the employees do not obtain any of the benefits of the profit sharing

fund until seven years after they become eligible to participate. The company agrees to set aside five per cent of the net earnings, without deduction of dividends to stockholders, to an Employees' Savings and Profit Sharing Fund. Any employee, after three years of service, is eligible to participate by depositing five per cent of his annual salary. The company's contribution of five per cent of its profits will be credited pro rata to employees in the proportion which the amount deposited by each employee during the preceding year bears to the total amount deposited by all employees during such year. A depositor who has completed ten years of service with the company will be entitled to withdraw all money credited to his or her account, including the company's contributions. A depositor who has not completed ten years of service will be entitled to withdraw only the amount he or she has deposited plus interest at five per cent. There are two exceptions to this rule. A woman depositor who, after five years' service, leaves to become married is entitled to her full share of the fund, and if a depositor dies his estate will be entitled to the full amount credited. The service must be continuous, for it is provided that a depositor shall withdraw his accumulation upon ceasing to be an employee, and a depositor who once withdraws cannot reënter the fund. The fund is managed by a board of five trustees, three to be officers or directors of the company and two employees. So far as seems advisable the fund will be invested in stock of the company. According to the company's estimate

the amounts available for participating employees will be much larger than the amounts paid in by them. Basing the figures upon the preceding year's profits, the estimate is as follows:

ESTIMATE OF ACCUMULATION OF FUND

Based on Earnings as of Year Ending December 31, 1915, and of Pay Roll as of July 1, 1916

Annual payment by company	$550,000.00
Annual payment by employees	287,406.00
	$837,406.00

Effect on every $1.00 deposited by Employees

Payment by employee	$1.00
Payment by company	1.91
	$2.91

Employee receiving salary of $20 per week would have to his credit:

$ 3,428.45	after 15 years, of which	$ 780.00	was paid in by employee
5,253.67	after 20 years, of which	1,040.00	was paid in by employee
7,583.10	after 25 years, of which	1,300.00	was paid in by employee
10,556.24	after 30 years, of which	1,560.00	was paid in by employee

The Sears Roebuck plan is profit sharing in the strict sense of the term, since the amount of payments available for the employees will depend directly upon the earnings of the enterprise. It will probably exert a considerable influence in stabilizing the labor supply. The social results of plans which require long periods of continuous service are considered in the closing sections of this chapter.

RELATION OF PROFITS TO WAGES

Even though the payments be not long deferred, profit sharing may promote length of service if the profits paid represent an attractive addition to the market rate of wages. The proper use of profit

sharing as an arrangement to secure length of service rests upon the assumption that the participants are paid the full market rate of wages, and that the profit share is an appreciable addition to such wages. It is reasonable to assume that, if hours and other conditions of employment are equally satisfactory, employees will prefer to remain where they are best paid. Even in the case of employees who are paid largely or almost entirely in the form of profits, as in the case of some branch managers and traveling salesmen, profit sharing will probably prove valuable as a means of promoting long service only in so far as the amounts earned by such employees exceed the amounts they could reasonably expect to earn, if employed by non-profit sharing establishments.

PROFIT SHARING APPEARS TO PROMOTE LENGTH OF SERVICE

While few of the concerns investigated have collected any statistics upon labor turn-over, there exists among them the conviction that length of service has been promoted by the use of profit sharing. This belief is confirmed by the findings of the United States Bureau of Labor Statistics, which, in its report on "Profit Sharing in the United States," says: "All the informants without exception were also of the opinion that the establishment of the plans had a tendency to reduce the percentage turn-over of their working organization." [1]

[1] Bulletin of the United States Bureau of Labor Statistics (1917) — Whole number 208, page 170.

OTHER METHODS OF PROMOTING STABILITY — SELECTION, INSTRUCTION, AND PROMOTION OF EMPLOYEES

While under proper conditions profit sharing may prove decidedly helpful in securing stability of the labor force, other methods should not be ignored. An executive in one of the best known profit sharing establishments states that he regards profit sharing as of far less importance in reducing the labor turn-over than the proper selection of employees and their adaptation to their tasks. The instruction of employees, so as to increase their efficiency and earning power, reduces the constant shifting among the wage earners.

Even more important is the adoption of a wise promotion policy. A firm whose promotion policy leads employees to feel that the company wishes to keep them from rising, and that it will grant only those advancements and promotions which it is absolutely compelled to grant, cannot expect to retain its ambitious employees. One profit sharing firm explains that its policy is to encourage promotion and advancement among all its employees. Full reports and data are kept regarding the record of each employee, and the qualities and capacities displayed by him. Once every six months the record of each salaried employee is carefully considered for the purpose of ascertaining whether an advance is not justified, and similar consideration is given monthly to each wage earner. There is no necessity for the employee to present a demand

or request, for the policy is to advance employees voluntarily as rapidly as their records justify it. It is not surprising that this company is little troubled with the problem of an unstable labor supply. Clearly, considerations other than the mere method of compensation are of large importance in developing permanency of employment.

THE UNIFORM BONUS

One of the most widely used methods to retain employees is the payment of a cash bonus. During the past few years a large number of establishments have announced their intention of paying to all employees a bonus consisting of a certain uniform percentage of their wages. Such a bonus ordinarily runs from five to ten per cent and is payable semi-annually or annually. It is sometimes called a "war bonus" or a "prosperity bonus," and is occasionally but improperly called profit sharing. In most cases it would probably prove more effective to put the money paid out in such periodic bonuses into the weekly pay envelope. The president of a manufacturing establishment using this bonus system reported that his employees were quick to leave when they got a chance to secure employment elsewhere at a slightly increased wage, regardless of the fact that the amount of their annual bonus more than offset this difference. The same experience has been reported by others. It is the amount of regular wage received which is of primary interest to the rank and file of the workers. If an employer contemplates the payment of a bonus on wages to

promote stability of his labor force, he can probably better accomplish his purpose by adding this sum of money regularly to the wages, provided he thus pays a higher wage than is paid to similar labor in the community. In reality this is what is done by the Ford Motor Company. It gives the bonus to the workman on every pay day, along with his regular pay, thus effectually raising wages. Of course, if the payment of this additional amount or bonus is purely temporary, to meet an unusual situation, it may be advantageous to maintain the distinction between bonus and wages, since a wage scale which has become customary can be lowered only with difficulty. It remains to be seen after the present war, however, whether these bonuses, many of which have been granted only as a temporary measure, can be easily withdrawn. The scale of living tends to rise with the higher income, and the payment which was intended as an exception soon comes to be expected as the rule.

THE GRADED BONUS

The graded cash bonus, varying directly with the length of service, is another type of payment especially calculated to retain the services of employees. The method used by the Solvay Process Company of Solvay, New York, is illustrative of this practice. Bonus payments of a percentage of the salary earned during the preceding year are made to all employees who have been in the continuous service of the company.

TERM OF EMPLOYMENT	PERCENTAGE OF SALARY OF PRECEDING YEAR
2 years	2 per cent
3 years	$2\frac{1}{2}$ per cent
4 years	3 per cent
5 years	$3\frac{1}{2}$ per cent
6 years	4 per cent
7 years	$4\frac{1}{2}$ per cent
8 years	5 per cent
9 years	$5\frac{1}{2}$ per cent
10 years or more	6 per cent

The company reports as follows: "This plan puts a premium on length of service and has reduced the number of changes in the working force. The men, we believe, are benefited by it, because by receiving a lump sum once a year they are more likely to have this money available to make payments on obligations, to buy real estate, or make investments than if it had been necessary for them to save an equal amount out of their weekly wages during the year."

The American Rolling Mill Company of Middletown, Ohio, has a somewhat similar plan which includes all salaried employees earning less than $100 per month. All such employees "who are in its service on July first of each year, whose work has been satisfactory to their superior officers, who intend to remain in the service of the company for the ensuing year," are eligible. They are paid an annual bonus upon salary, upon the following basis:

TERM OF EMPLOYMENT	PERCENTAGE OF SALARY OF PRECEDING YEAR
$1\frac{1}{2}$ to $2\frac{1}{2}$ years	5 per cent
$2\frac{1}{2}$ to 5 years	10 per cent
5 to 10 years	$12\frac{1}{2}$ per cent
10 years or more	15 per cent

Another large manufacturing concern rewards length of service by the use of a somewhat similar bonus schedule.

TERM OF EMPLOYMENT	PERCENTAGE OF WAGES OF PRECEDING YEAR
1 to 2 years	2 per cent
2 to 3 years	4 per cent
3 to 4 years	6 per cent
4 to 5 years	8 per cent
5 to 6 years	10 per cent
6 to 7 years	12 per cent
7 to 8 years	14 per cent
8 to 9 years	16 per cent
9 to 10 years	18 per cent
More than 10 years	20 per cent

ADVANTAGES OF THE GRADED BONUS

One employer reports that by the use of the graded bonus he has encouraged a goodly number of his men to remain permanently in his employ. But he notes a certain disadvantage which accompanies this benefit. On account of their advancing age he now finds many of these less efficient than others who could be secured, and to whom such bonus payments would be unnecessary. Yet, having encouraged them to remain during their best years under the terms of this scheme, he is now naturally reluctant to discharge them. Where, however, the employer desires to foster permanency of employment and is therefore willing to pay an increasing amount for increasing length of service, the graded bonus can be used more effectively than an advance in the regular wages based merely upon the years of service. For advancing regular wages in accordance with length of service arouses resentment among the men who have not been working in the establishment long enough to draw the higher scale of wages, but who are working alongside of the higher paid men, doing the same work and doing it just as well. Such

resentment is likely to produce friction among the men and antagonism towards the employer, whereas the annually paid graded bonus, which is not regarded as a part of regular wages, but as a special payment for length of service, is not so apt to produce these undesirable results.

ADVANTAGES AND DISADVANTAGES OF PROFIT SHARING TO PROMOTE LENGTH OF SERVICE

The outstanding fact tacitly recognized in all these plans is that long service is something which the employer is not entitled to expect in return for the regular market wage. It is something of special value over and above the day's work, and to obtain it the employer expects to make an exceptional payment for it. What form this payment takes may or may not be of importance to the employee. To the employer profit sharing has a seeming advantage over the other plans in that it does not definitely obligate him to make any payments, and that these will be made only if earned under the terms of the plan. On the other hand, it is necessary to remember that a profit sharing plan will fail to promote length of service or any other desirable results unless under normal conditions, payments are regularly made. Profit sharing also offers the real advantage that with encouragement to length of service it usually combines other advantages not equally obtainable from any of the bonus plans, particularly the incentive to efficiency, which, as has been indicated, is most effective among the higher paid groups. But to those employers who are reluctant

to yield participation of profits, with its attendant publicity as to earnings, other methods of promoting length of service will doubtless be preferable.

LABOR MUST RETAIN ITS MOBILITY

Although such arrangements as those described in this chapter may encourage stability of the labor force, this, it must be admitted, is not always to the interest of the wage-earner. The bargaining power of labor is materially increased when the employees may freely leave, either as individuals or in a group. Anything which tends to lessen such freedom, to prevent employees from severing their connections when they please, or when they can improve their economic status by doing so, is socially undesirable. The portals of opportunity must be left wide open. Employees are justified in scrutinizing carefully all plans which have for their chief purpose promoting length of service. This does not mean that all such plans operate unfavorably to them, but simply that the interests of employees should be properly protected. A premium upon length of service should not be used to penalize employees for going out on strike or to curtail their efforts to improve their conditions of employment. Otherwise the employees might lose more than they gain.

PROVISIONS TO SAFEGUARD EMPLOYEES

In all profit sharing and bonus plans designed to secure length of service provision should be made to safeguard the employee's liberty of action. A jobbing house in Chicago pays a bonus for length of

service, which is based upon the aggregate wages the employee may have earned throughout his entire period of employment with the company. The bonus paid to all employees is a uniform percentage of wages, but the percentage is paid upon the aggregate wages previously earned. Under such a plan it can be provided that an employee's earnings will stand permanently to his credit. Thus the employee who had been long in the company's employ could be rewarded, whether or not the employment had been continuous. The Dennison Manufacturing Company states that the qualifying period for participation in profit sharing need not represent continuous service, but may be "aggregate service." Under the "service retirement plan" announced by the Colorado Fuel and Iron Company, in March 1917, it is provided that the qualifying period need not be continuous. The company announces its intention of paying retiring allowances, which are to be thirty per cent of the average pay per month during the ten years next preceding retirement, with a minimum of twenty dollars per month. Employees are eligible to receive these allowances after from fifteen to twenty years of service. The company's statement says explicitly that "credit is given for all the time employees have actually been on the pay roll, even though the service has not been continuous. . . . Credit shall be given for the time the employee is actually on the pay roll and in active service."

An employee should not expect to be paid profits covering a period when he is not in the active service of the employer. But individual or joint action, for

the purpose of securing a change in the conditions and terms of employment, should not operate to deprive an employee of his profit sharing privilege if he is reëmployed. It is believed that employees, particularly in the ranks in which work and pay are standardized, would be justified in insisting upon some such provision. It is also believed that far-sighted employers would find it to their interest to remove from their profit sharing methods any suspicion of constraint upon the worker.

SUMMARY

The foregoing discussion leads to the conclusion that any one of several methods, — a uniform bonus, or a bonus graded with length of service, or appreciably higher wages than the market rate, or genuine profit sharing, may prove helpful in securing stability of the labor supply. Profit sharing cannot lay claim to marked superiority for the accomplishment of this purpose, though since it may accomplish other ends at the same time, it has some advantages. The degree of success which may be achieved by the use of any of these plans will depend largely upon the amounts of the special payments and the way in which the plans are administered. A prime essential for the success of any of them is a proper selection, training, and promotion policy.

CHAPTER VII

PROFIT SHARING TO PROMOTE INDUSTRIAL PEACE

PROFIT SHARING AS A MEANS OF ESTABLISHING PEACE

PROFIT sharing is frequently advocated upon the ground that it will promote industrial peace. Its advocates have urged that, by making the interests of employer and employee identical, profit sharing will tend to lessen antagonism and friction between owners and employed workers, and to substitute in their stead industrial harmony. Not only have employers thought to use profit sharing for the purpose of promoting amicable relations with employees, but social reformers have also advocated its use upon the ground that it would prove a solution for the labor problem, by lessening industrial disputes and by increasing cordial relations between employer and employee.

There are various provisions which are counted upon to achieve this end. Insurance against strikes is sought by limiting participation in profits to those who have been in "continuous service" for a specified period, usually one year. Thus, any who go out on strike would forfeit their share of profits. Or it may be agreed that participants will not leave the firm's employ without giving notice a certain period in advance, say thirty or sixty days. This delay

tends to reduce the probability of successful strikes. Again, the employer may depend simply on the friendly attitude and the spirit of cöoperation developed by profit sharing.

OPPOSITION OF ORGANIZED LABOR

The desire to avoid the inconvenience, expense, and loss arising from industrial warfare, and to secure continuous operation of industry, is natural and legitimate. But many leaders of organized labor regard profit sharing as a clever device upon the part of the employers calculated to promote industrial peace only in so far as it weakens the organization of labor. While the American Federation of Labor has never taken official action upon the subject, there can be no doubt that many labor leaders regard profit sharing with suspicion as a scheme by which employers expect to eliminate strikes, by winning the devotion and loyalty of the men away from the unions.

STATEMENTS OF LABOR LEADERS

As typical of this attitude may be quoted the following statements from some of the leaders of organized labor. These statements are selected from various replies sent to the National Civic Federation, in response to inquiry as to the desirability of profit sharing.[1] Andrew J. Furuseth, President of the International Seamen's Union of America, says: "Profit sharing is a truce that the

[1] See "Profit Sharing by American Employers," 1916—National Civic Federation, page 233.

employers seldom enter into except with the purpose of holding wages down." Warren S. Stone, Grand Chief of the International Brotherhood of Locomotive Engineers, writes: "I am opposed to profit sharing of any kind, under any name. I believe in paying the worker fair wages and allowing him to look after his own interests. All forms of profit sharing, be they a cash distribution or a bonus, or the selling of stock at low rates, are subject to the same abuses. They have a tendency to speed up the worker, and, in addition to that, they make him resigned to work under conditions which otherwise he would not tolerate for a single day, were it not for the hope of the bonus in the near future which is always being kept before him." William Green, Secretary-Treasurer of the United Mine Workers of America, asserts: "If the profits of a concern will permit of distribution among the men employed, the money should be paid in wages that would be regarded as just and fair." John Fitzpatrick, President of the Chicago Federation of Labor, puts his objection vigorously: "For my part, I think these schemes are all totally bad and are no more or less than a fraud, a deception, and a snare. . . . The slogan of the American labor movement, 'a fair day's pay for a fair day's work,' is the manly, human, honest, fair way to meet the question of work and wages." H. B. Perham, President of the Order of Railroad Telegraphers, says: "Wage earners are entitled to what they have earned as soon as their day's work is done, and they are not entitled to any more."

THE *Federationist* ON PROFIT SHARING

Organized labor's attitude toward profit sharing is again shown in the following editorial in the *Federationist,* the official organ of the American Federation of Labor, for May, 1916.

"Would the topic of profit sharing be a live one were the demand for labor not greater than it was two years ago?

"What proportion of the establishments employing union labor are profit sharers or contemplate profit sharing?

"To what extent can the movement be simply anti-unionist or increasingly exploitative, or otherwise a confession of a conscious weakness in the presence of to-day's uprising of labor?

"In looking over notes and clippings concerning the moves and opinions of the new profit sharers, or proposed profit sharers, the expressions of altruism and philanthropy seem to be 'lugged' into the discussion, while the language of calculating business comes to the front frequently and forcibly. The profit sharers are considering 'the various methods by which employers may bind their employees closer to them'; they are seeking, in a deceptive annual dividend to labor, 'a sound business move'; they wish 'the employee to be governed by the same motives that animate the employer'; they invariably 'seek efficiency.' This language has a purely businesslike sound. But wherein it indicates an increased happiness for the masses of labor is not convincing."

REASONS FOR THE ATTITUDE OF LABOR LEADERS

There are several factors which explain, at least in part, this attitude upon the part of organized labor. It is probable, as suggested in the foregoing editorial, that the majority of profit sharing plans for skilled or unskilled workingmen are in operation in non-union establishments. Some profit sharing plants pay less than the market rate of wages, many of them pay less than the union scale. Furthermore, some profit sharing plans have included certain restrictions obnoxious to the principles of organized labor, such as the contractual obligation to give long notice before leaving employment, or the requirement of "continuous service." These provisions, which tend to reduce the possibility of strikes, are naturally opposed by the leaders of organizations which depend largely upon the strike, or the potential strike, to enforce their demands. It may also be significant that the demand for profit sharing does not originate with the wage earners, who are apt to suspect plans for their "betterment" which are imposed from above.

NOT ALL PROFIT SHARING IS ANTAGONISTIC TO ORGANIZED LABOR

With all this, there is no conclusive evidence that all kinds of profit sharing are necessarily antagonistic to the organization of labor. While it happens that most concerns which share profits with the rank and file employ non-union laborers, this is not always the case. Investigation reveals

that a considerable number of profit sharing firms employ union labor, and that union men participate in the distribution of profits. One of the leaders in circulating a testimonial of appreciation which was recently presented to a Massachusetts manufacturing concern by its employees, after its first profit sharing distribution, was a prominent local labor leader.

Restrictions which bind the employee to the concern and curtail his freedom in leaving or in striking are not essential to a successful plan of profit sharing, and, as has already been noted, the payment of wages below the market is distinctly detrimental to profit sharing. Some profit sharing concerns meet the union scale of wages and hours. Indeed one employer using profit sharing expressed the opinion that it might be expected to operate more effectively in a unionized establishment than in any other, because of the fact that the union scale practically standardizes wages, and therefore if profits are distributed in proportion to wages, there is practical equality both in wages and in participation in profits, thus diminishing envy and jealousies.

However this may be, it cannot be too much insisted upon that no plan of profit sharing among the rank and file can succeed which is not based upon the full going schedule of wages and hours. If this schedule corresponds to the union scale, and if the plan does not limit freedom of action, it is difficult to understand upon what grounds organized labor could object to the introduction

of profit sharing. The employer takes his chance that paying something above the standard rate might or might not prove advantageous, and the men would be taking no risk of an encroachment upon their wage scale or their liberty.

THE *Federationist* UPON PROFIT SHARING ACCOMPANIED BY UNION CONDITIONS

That profit sharing upon such a basis might not be objectionable to organized labor would seem to be indicated by the editorial from the *Federationist*, above referred to. This continues as follows: "Not only on behalf of organized labor but on the part of the general public, one test of its social efficacy may at the outset be offered to the advocates of profit sharing. It is this: Will the employing profit sharer take as a basis the union scale of wages and hours in his occupation and the working conditions deemed fair by law and union custom, and proceeding from that level offer in addition any of the forms of profits which have been recommended by the professed upholders of profit sharing? How many names this question would eliminate from the list of its advocates is an estimate which any observer of the movement may make for himself."

ORGANIZED LABOR HAS LITTLE TO FEAR FROM PROFIT SHARING

In so far as the organization of labor and collective bargaining has a proper place in modern industry, it is believed that that place is not affected by the kind of profit sharing recommended in this book.

The profit sharing here advocated recognizes the wisdom of maintaining the basic standards of wages and conditions of employment. The forces which determine these standards, including, where necessary, the collective bargain and the strike, should have free play, and wise profit sharing will not attempt to interfere with their legitimate operation. Moreover, granting for the sake of argument that profit sharing and the organization of labor were essentially antagonistic to each other, organized labor as a movement would have little to fear from profit sharing, for it is best applied to groups in which organization is not significant. As will be pointed out later, the two groups among whom profit sharing is most effective are, first and foremost, the managerial group, those who exercise supervisory or discretionary functions and whose work and pay are not standardized, and in the second place, employees of the rank and file when employed in comparatively small concerns, or under special circumstances, such as the impossibility of supervision or the impracticability of basing compensation upon individual results. Among the first group, organization is impracticable and almost unknown, and the second group constitutes a comparatively small portion of the skilled and unskilled labor of the industrial world.

STOCK OWNERSHIP AMONG WAGE EARNERS

Another method through which corporations have sought to promote industrial peace by the use of profit sharing and pseudo profit sharing plans is

the distribution or sale to employees of stock in the company by which they are employed. Some of these plans provide that the employee's share of profits shall be distributed to him in the form of stock or credits on the purchase price of stock. The Boston Consolidated Gas Company and the New Haven Gas Light Company both have such a plan. The Baker Manufacturing Company of Evansville, Wisconsin, pays ninety per cent of the profit sharing dividend in the form of stock, the other ten per cent in cash. There are also bonus plans going under the name "profit sharing," which place the company's stock in the hands of the wage earners employed. For example, the sixteen per cent bonus on wages, paid to the Procter and Gamble Company's participants, is in the form of credits on the purchase price of stock. Other corporations have stock purchase plans for the rank and file, some of which are called "profit sharing." Among these may be mentioned the United States Steel Corporation, the International Harvester Company, the Thomas Devlin Manufacturing Company, and the National Carbon Company. In practically all of the purchase plans the employees are offered an opportunity to subscribe for stock on especially advantageous terms and pay for it in installments. Sometimes to the employee's periodic payments on the subscription price, the company adds a certain bonus, and in most cases the dividends which may be declared on the stock are credited on its purchase price. Whatever the method used, one of the important purposes in stock plans is to secure a large

number of the wage earners as stockholders in the corporation.

ITS POWER TO PROMOTE INDUSTRIAL PEACE

There can be no doubt that stock plans are frequently introduced because of the desire to prevent or to weaken the organization of labor, the hope that expensive strikes and industrial disputes will be done away with, and the wish to lessen the antagonism of workmen towards the corporation. Such plans rest largely upon the assumption that an employee who is a stockowner in the concern will be less likely to go out on strike, will be less easily influenced by "agitators," and will be more likely to take the viewpoint of the owners or managers. The sense of proprietorship in the business which may arise from stock ownership will, it is hoped, bear fruit in an increased loyalty to the interests of the concern.

DANGERS OF STOCK OWNERSHIP BY THE WAGE EARNERS

This very sense of ownership, however, has its dangers. It tends to "shackle" employees to the company, unless accompanied by special protective provisions. In a consideration of stock ownership, as of profit sharing by cash distributions, the two classes of employees must be kept in mind:

(1) Those whose work and remuneration are not standardized. These as a rule are the higher paid whose duties are largely managerial or discretionary.

(2) Those whose work and wages are standardized

or may be standardized. These constitute the great majority of the rank and file.

A member of the first group may obtain an advance in salary irrespective of the salaries of others in his group. There are some exceptions in the less responsible positions, but upon the whole there is no generally recognized salary for managerial or discretionary service. The range of payments for service is great. An advance in salary here depends almost entirely upon the individual's capacity, connections, and bargaining ability. But usually a member of the second group, while remaining in his rank, cannot expect to obtain higher wages irrespective of the wages of his group. He is largely dependent upon the wage scale of the group, for there is a standard wage for the kind of services which he has to offer. His rate of pay, therefore, rises or falls with that of the group. Since wages are standardized, one of the most powerful instruments in securing an advance in pay is group action and concerted presentation of demands. It is not socially desirable to lessen the *possibility* of such group action. Stock ownership, as ordinarily conducted among employees of this group, may promote industrial peace, but it may be at the expense of the ability of the workers to better their condition by unitedly asking for an improvement in wages or hours.

NECESSARY SAFEGUARDS IN STOCK PLANS

It is not maintained that all group action is wise, that all concerted demands presented are reasonable,

or that all strikes are justified. But the possibility of *freely* acting with his group should be left open to the employee, if he wishes so to act, and if the condition of wages or employment in his opinion are such as to warrant such action. This possibility seems to be reduced by stock ownership among the rank and file, at least as it has been usually practiced. In view of these considerations, if employees in the wage earning group are to be offered an opportunity to become stockholders, the offer should be subject to two important qualifications:

(1) Becoming a stock owner should be perfectly free and voluntary upon the part of the employee.

(2) Adequate provision should be made so that employees upon withdrawing from the company's employ can dispose of their stock without monetary loss.

WAGE EARNERS SHOULD BECOME STOCK OWNERS ONLY BY CHOICE

If profits are to be made available in stock, or credits on stock, the employees should be given their option to take their profits either in stock or cash. If profits are available for employees only in the form of stock, then stock ownership becomes a compulsory feature of the profit sharing plan. But unless the act of becoming shareholders is absolutely voluntary upon the part of participants the employer lays himself open to the suspicion that he is endeavoring to tie the employees to the concern so as to limit their freedom of action. If such a choice be given to the employee, the pressure of

fear of discharge, or of disfavor with the management, for failure to choose the stock, should not be present. Employees should not suffer because of preferring to take their profits in cash.

DISPOSING OF STOCK WITHOUT LOSS SHOULD BE POSSIBLE UPON WITHDRAWAL

Furthermore, unless adequate provision be made enabling employees upon withdrawal from employment to dispose of their stock without loss, an undesirable limitation upon freedom of action results. Many an employee would naturally hesitate to join in presenting concerted demands for advanced wages or improved conditions, even though wages and conditions might justify such action, if thus he must either strike against the concern in which he continues to be a stock owner, or sell his stock at a loss. Unless accompanied by some safeguard, whereby shares obtained by employees can be disposed of at their fair value, stock plans, while they may promote peaceful industrial relations, may prove a social danger. If introduced upon a wide scale, the gain from ownership might be more than offset by failure to obtain other gains. But this form of profit sharing, when applied to the managerial and discretionary employees, even though not accompanied by such safeguards, is not open to the objections here raised, since, as a rule, they are sufficiently able to protect themselves in individual bargaining.

THE EFFECTIVENESS OF PROFIT SHARING TO PROMOTE PEACEFUL RELATIONS

The question may be asked, "How is profit sharing to promote industrial peace unless it ties the employee to the business?" The answer is that an employer's freedom from strikes should rest upon fair wages, good conditions of employment, considerate treatment, deserved loyalty, and recognition of efficient service. It should rest upon the elimination of those undesirable conditions which frequently breed strikes, rather than upon so limiting the action of his employees as to prevent the possibility of their occurrence. It should rest not only upon maintenance of the current standards but upon such additional attractions that employees remain because they are glad to do so, rather than because of any economic pressure exerted upon them. It is in enhancing the desirability of employment with a fair employer that genuine profit sharing can play its part in promoting industrial peace. But while it can be of aid, it alone cannot eliminate strikes and establish industrial peace. Its applicability to the wage earning group is too small to enable it to accomplish such a Herculean task. As will be pointed out in Chapter XI the limits within which its use may be expected to prove effective among this group are narrow, and its possibilities in the establishment and maintenance of peaceful industrial relations are correspondingly limited.

SUMMARY

However desirable industrial peace and the regular conduct of industry may be to the employer, it is socially undesirable that it should be obtained by provisions which in any way tend to limit or lessen the liberty of individual or group action. Such a price is too great for the workmen to pay. We make no appeal for the widespread or universal introduction of profit sharing among the rank and file. But we insist that when profit sharing is so applied, even though it be with the laudable purpose of promoting industrial peace, it should not limit the mobility or freedom of labor. If the plan is to be conducted by the distribution of cash, no restrictions upon freedom of action should be imposed. If the distribution is to be in the form of stock, the workman should be given his option of taking stock or cash, and if he takes stock, he should be guaranteed his freedom to leave without incurring any loss in the value of his stock.

CHAPTER VIII

PROFIT SHARING TO PROMOTE EFFECTIVE MANAGEMENT

PROFIT SHARING FOR THE MANAGERIAL GROUP

IN the literature and discussions of profit sharing attention has ordinarily been centered upon its application to the rank and file of the wage earners. This method of compensation has generally been regarded as one peculiarly appropriate for the masses of workers, and much has been written concerning the beneficial results which might follow from its use among them. There has been little consideration of its possibilities as applied to the managerial employees. As a matter of fact, profit sharing is especially applicable to employees of the latter type and may produce peculiarly valuable results among them, by inducing more effective management. This statement applies not only to the highest executives, but to all those employees whose duties consist largely in the exercise of discretion and judgment, as distinguished from those whose work is mainly routine in character.

INADEQUACY OF FIXED SALARIES FOR MANAGERS

Reliance is ordinarily placed upon the payment of generous salaries to secure the best efforts of managerial employees. The receipt of a good salary,

together with the knowledge that results achieved must be commensurate with the salary if the position is to be retained, has usually been regarded as sufficient to secure from employees of this type satisfactory service. It is commonly thought that this incentive is strengthened by the desire for promotion and advancement both in salary and responsibility. These influences are certainly powerful ones. The practice of paying liberal salaries and providing for recognition of service by advancement doubtless has been an important factor in promoting American industrial efficiency and expansion.

But there is a great difference between being sufficiently effective to retain one's position, and being as effective as one's powers and capacities permit. Probably few men employed on fixed salaries, even those occupying managerial and executive positions, are measuring up to their greatest possibilities. Most men are stimulated to this point only by the definite prospect of direct and personal gain. Those engaged in artistic, scientific, intellectual, or religious work, and frequently business executives, find their reward largely in the satisfaction of work well done. But while this motive affects some in business, it generally does not do so, to so great an extent, below the highest positions. It is true that the immediate prospect of an increase in salary is likely to secure increased effectiveness; but when advances are slow or the limit of earning is reached, a certain lassitude or even resentment may impair the usefulness of the salaried worker. Realizing the defects of the flat salary for those occupying discretionary

and managerial positions, a number of firms are now using profit sharing.

USE OF PROFIT SHARING BY DEPARTMENT STORES

There are several large department and retail stores which use this method of remuneration for department heads and principal employees. Unit profit sharing is the usual arrangement in such cases. A leading department store in Milwaukee pays its department managers a fixed annual salary, but this varies in a definite ratio with the profits made by them in their departments in the preceding year. The Stumpf and Langhoff store in Milwaukee shares its profits with four of its employees occupying the most responsible positions. The Halle Brothers Company, a large department store of Cleveland, pays to each of five men, comprising the general management (exclusive of the stockholders), either a share of the profits of their respective departments or of the business as a whole. The Davidson Brothers Company, operating a growing store in Sioux City, Iowa, has for the past ten years been paying to its department managers, in addition to a stipulated annual salary, ten per cent of the net profits made in their departments. An important department store of Newark places its merchandise men and buyers upon a profit sharing basis after their first year of employment. They are paid a percentage of the profits of the departments which they manage, or for which they buy. The company believes that the efficiency of the men has been increased by these methods of compensation. The

Houghton and Dutton Company, operating a department store in Boston, gives to a few of its buyers who are in charge of departments a share in the profits of the department in addition to their salary.

A large store in Los Angeles has an arrangement with some of its department managers whereby they are paid a "bonus upon the profit showing," which in reality constitutes profit sharing. Under this plan a certain "bonus" for each month is paid at the end of the year, based upon the monthly profits yielded by the manager's section. The same plan is followed by one of the large retail establishments of Cleveland. This system differs from other bonus plans in that the additional payment varies not with sales or output, but with profits. Although the payment in addition to salary is not expressed in terms of percentages of profits, but in graduated cash amounts, this is essentially profit sharing. In the Wanamaker stores the compensation of the department chiefs varies both according to volume of sales and net profits of the departments. The same principle is applied by the F. & R. Lazarus Company of Columbus. Such an arrangement is calculated to induce the managers to push sales, but at the same time not to overlook the other factors which affect cost.

THE APPLICABILITY OF PROFIT SHARING TO MANAGERS IN RETAIL AND DEPARTMENT STORES

Whether profit sharing will succeed in obtaining effective management among managers in retail

and department stores depends somewhat upon the character of the internal organization. Departments in mercantile establishments are often organized as entirely separate units with a department head or superintendent in charge. The accounts for each department are kept separately, the department head supervises the employees, the display, pricing and selling of goods, advertising, the maintenance of stock, and often is responsible for the buying. Under such circumstances the success of his efforts cannot be measured simply by volume of sales. In all of his varied and numerous functions of management he greatly affects profits, through his influence upon sales and costs. Under such circumstances remuneration by a share in the departmental profits, in addition to salary, should prove highly advantageous.

But it may be that the factors under the individual's control are not such as to justify the use of profit sharing. One of the smaller department stores of Chicago pays a percentage of profits to its executives, but pays its department managers a bonus upon sales. It justifies this distinction upon the ground that in its organization the department managers do not control the expense items, which are all under the general executives. Obviously, when department heads exercise no influence upon costs, and when all the responsibility of expenditure for buying, advertising, employing help, or for other purposes is assumed by others, the effectiveness of profit sharing would be materially lessened. Under such circumstances a system of bonuses or

commissions upon sales might better serve as a means of promoting effective service.

GENERAL OR UNIT PROFIT SHARING FOR RETAIL MANAGERS

When the factors under the control of the department manager are such that he influences both sales and costs, paying him a portion of the departmental profits will prove a more powerful and direct incentive to his best efforts than paying him a share in the profits of the whole business, which includes many departments for which he is not responsible. But if it is desired to obtain a strong spirit of coöperation between department heads, as well as to encourage their individual efficiency, a combination of unit or departmental and general profit sharing may accomplish this result. Whether general profit sharing should be included would depend somewhat upon the nature of the organization of the business, the relations of department heads to each other, and the extent of their opportunities for coöperation.

THE DEVELOPMENT OF CHAIN STORES

The conduct of merchandising through scattered branches, called chain stores, owned by one corporation, is one of the most notable business developments of recent years. This method of merchandising has been carried farthest in certain lines of the retail business, particularly in groceries, drugs, cigars, and notions. But the successful chain

stores are not confined to these lines; they are also found in the retailing of hats, clothing, candies, shoes, furniture, and many other commodities. Estimates differ widely as to the number of chain stores in existence. One claim is that there are fully ten thousand chain systems in the United States. Hurd and Timmerman more conservatively place the number of chains, consisting of three or more stores each, in excess of two thousand, and the number of individual stores in such chains in excess of twenty-five thousand.[1] While, as compared with the total number of retailers, this is a small number, yet it is to be remembered that the chain stores are located principally in the cities, and, compared with the number of retail establishments in the cities alone, they constitute a much larger percentage of the total. The above estimate includes only "chains of three or more stores under one ownership and direction" and does not include concerns like the Besse System or the Eastern Outfitting Company, which make an owning partner of the local manager, by forming a separate corporation or otherwise.

THE PROBLEM OF THE CHAIN STORE

One of the fundamental problems of the chain store, or of any business which has numerous scattered units, is that of local management. A writer in *Printers' Ink* says: "When we come to sales management and personnel, we find the glaring weakness of the chain." The chief difficulty in the operation of chain stores or branches is to secure and

[1] See *Printers' Ink*, December 10, 1914.

hold as managers for the separate units capable men who will have an interest in the success of the store approximating that of the small scale owners with whom they must compete. An effort is usually made to meet this situation by the use of traveling auditors and inspectors. But it is not the difficulty of maintaining close personal supervision over these scattered managers which is the most serious problem. Management cannot be "supervised" in the same sense as routine work, since personality plays so great a part in it. The need is to stimulate to full exercise those combined qualities of prudent judgment and enthusiastic energy which are displayed in successful enterprise.

To do this a flat salary cannot always be relied upon. Even a commission upon sales is often objectionable, for while it gives the branch manager an incentive to increase sales, it fails to offer him an inducement to reduce costs. The branch manager must not only push sales but he must usually employ, train, supervise, and discharge the employees, assume responsibility for the advertising, displays, and accounting, and select or requisition the goods to be offered for sale. He must be relied upon to prevent the accumulation of old stock and to "watch all the leaks." His functions are numerous and he has a large opportunity to influence profits aside from the increasing of sales. In other words, he is in charge of an independent unit in the business, — a unit whose success can be measured only by the profits which it produces. Unit profit sharing is clearly indicated as an efficacious method

of compensating and stimulating branch managers of retail stores.

THE USE OF PROFIT SHARING FOR BRANCH MANAGERS. THE WOOLWORTH PLAN

Some of the most successful chain stores have found this to be true. The most notable illustration is the Woolworth system. It is understood that in the early years of the Woolworth stores the branch managers were given forty-nine per cent of the profits produced by their individual establishments.[1] This was during the experimental stage when the public had not yet become familiar with these establishments. As the system of buying and selling became more centralized and the clientele more secure, the relative importance of the managers became less. With the gradual perfection of the system their share of profits was cut down to thirty-five per cent, later to twenty-five per cent, and then to fifteen per cent. Many of the managers are now on a basis of eight per cent. Though diminished in responsibility, their work still remains varied and important. They not only hire and supervise all the labor, but they make the daily reports, furnish estimates of the probable local demand, and keep a watchful eye upon the manifold factors which influence the profits account.

METHODS USED BY OTHER CHAIN ORGANIZATIONS

Other chain systems successfully practice unit profit sharing with their store managers. The Owl Drug Company of San Francisco, operating retail

[1] See *Printers' Ink*, April 1, 1915, p. 1.

drug stores in many of the larger cities, pays each branch manager a percentage of the profits of the store which he operates, in addition to his salary. The G. C. Murphy Company of McKeesport, Pa., owning five-and-ten-cent stores, bases the compensation of each of its thirty managers upon the profits of his store. The percentage of profits paid ranges from twenty-five to thirty-three and one-third per cent. The manager has a contract under which he is entitled to a certain fixed salary and a definite share of profits. If his share of the net profits exceeds his salary, he is paid the amount of the difference, but if his share of the profits is less than his salary his salary is not reduced. The McCrary Stores Corporation of New York, operating five-and-ten-cent stores, uses profit sharing for its one hundred and forty or more branch managers. They are paid a guaranteed salary, with a share of profits if these exceed certain amounts. The managers almost invariably earn something in addition to their salaries. The company regards its plan as "a good method of stimulating our managers to do their best work." Harlam's Red Stores, of Chattanooga, dealing in groceries, pay to each branch manager one-half the profits of his store.

The George Kraft Company, of Chicago, allows the managers of its chain of five-and-ten-cent stores a weekly drawing allowance, although the annual earnings of the manager are based upon a certain percentage of the net profits of his store. When the settlement is made at the end of the year, this weekly drawing allowance is treated as advanced

pay. The S. S. Kresge Company, another five-and-ten-cent store concern, follows a similar plan, adjusting the proportion of profits paid to the branch manager by the size of the city and other circumstances. In computing the profits of the store, there is charged to it a part of the general expense incident to the conduct of the entire business of the syndicate, determined by the proportion that the sales of the store bear to the total sales of the company. Browning, King and Company, operating clothing stores in many cities, pays the manager of each store a fixed salary plus a share in the profits of the store. The Kelsey Company of Boston, controlling the Waldorf Lunch system, pays each branch manager a regular salary and in addition to this gives him each month a percentage of the previous month's net earnings of his particular establishment. This method has the advantage of frequency of payment and is applicable in such a business as the operation of lunch rooms, where the fixed capital investment is slight and where the turn-over of capital is very rapid. Mr. N. O. Nelson, who runs a chain of sixty-one grocery stores in New Orleans, pays out one-fourth of all the profits of each store to all the employees in proportion to their wages. The manager, since he receives the largest salary, receives the largest share in the profits.

OTHER FEATURES SOMETIMES COMBINED WITH PROFIT SHARING

Many other companies operating branch stores use profit sharing for the branch managers, com-

bining with it some other features. The Marshall Drug Company, with some fifteen stores in Cleveland, pays its managers a fixed salary, plus a percentage of the total profits of the store, together with commissions on the sales of certain items. The company expresses itself as well pleased with the results. The Gately stores, engaged in selling clothing on credit, hire most of their branch managers upon a salary, plus a percentage on the weekly remittance of their stores to the home office, with an additional percentage, computed annually, of the profits of their stores. The commission on remittances tends to keep the manager's eye upon sales, and particularly upon collections, so important to a house selling on credit, while the percentage of profits impels him to keep down costs.

Another corporation operating a chain of twenty stores in the Eastern states pays each manager a salary and a share of the profits of his store. The manager is permitted the option of withdrawing his profits at will, or of letting them accumulate for a period, at the end of which the parent organization incorporates the branch store, permitting the manager to purchase stock of the new corporation, to the amount of profit accumulated to his credit. The Wiley B. Allen Company, conducting a number of piano and talking machine stores in the Pacific Coast cities, has two different profit sharing methods of paying branch managers. One applies to managers in the larger places, from which sub-agencies are controlled, and the other method applies to stores in smaller places which transact simply a

retail business. In stores of the latter class managers are paid a fixed salary, plus a percentage (ten to fifteen per cent) of the net profits every six months. In the larger cities a separate corporation is organized, a certain amount of stock in which is set aside for each manager, to be paid for by the earnings upon said stock. The Florsheim Shoe Company of Chicago endeavors to interest the managers of its branch stores in the success of their stores, either by paying them a percentage of profits or by forming a separate corporation to operate each store. In the latter case the manager buys stock in this corporation and is permitted to pay for it out of the profits of the business. Several of the above concerns, in addition to paying branch managers a share in profits, pay them a percentage on the increase in the volume of sales over those of the previous year. This gives an additional incentive to raise each year the volume of sales, while the profit sharing feature causes the manager not to ignore those other factors which affect profits or costs.

THE SUCCESS OF PROFIT SHARING AMONG BRANCH MANAGERS

Careful investigation indicates the satisfaction of all the above organizations with their profit sharing plans. The only chain organization so far found which tried profit sharing and abandoned it as unsuccessful is the Baltimore Dairy Lunch. Mr. J. A. Whitcomb, owner of this chain, reports that he gave profit sharing with his managers a thorough trial, and found it an "absolute and complete

failure." Exceptional factors, however, seem to have been present in this case.

OTHER METHODS SOMETIMES BEST FOR BRANCH MANAGERS

There are some branch store organizations which do not use profit sharing at all, but which use other methods of special compensation for the managers. Whether profit sharing is the most advisable method of remunerating branch managers or employees of any type depends largely upon the functions which they exercise. For example, the United Cigar Stores Company does not share profits with its local managers, but simply pays them a flat salary plus commissions upon sales. Where, as in this concern, increasing the volume of sales is apparently the one important function expected of the manager, a commission upon sales gives an adequate incentive. The local managers of this company have little to do with the selection of goods offered for sale, the buying, or the advertising. Since there are but few employees in each store, the labor problem is simplified. The manager has, therefore, little opportunity to influence costs.

Other chain concerns, instead of using profit sharing, induce branch managers to keep down costs by paying a bonus upon the lowering of operating expenses. For example, the Childs Company, with a large number of restaurants in various cities, pays its managers a fixed salary plus a portion of the savings in operating costs which they may effect. Assuming a certain per cent

of the gross sales to cover all operating expenses, any reduction of this ratio brings to the manager a predetermined percentage of the saving. When a company has standardized its methods and can expect a fairly regular volume of sales, little initiative is left to the branch manager, since, as illustrated by the Childs organization, the chief opportunity of the manager to influence profits is through the reduction of operating costs. In this case, special compensation based upon reduction in cost, supplemented by visiting inspectors, may be a sufficient stimulus.

SUPERIORITY OF PROFIT SHARING UNDER SOME CONDITIONS

It is clear that when the branch manager's duties are sufficiently simple, relating mainly either to sales or costs, methods of compensation other than profit sharing may be advisable. But when, as is usually the case in branch stores, he has a variety of executive duties, affecting not only the volume of sales but also the costs of operation and the quality of service, a carefully worked out system of unit profit sharing will excite his interest in the store he is managing more than any other known arrangement.

GENERAL PROFIT SHARING MORE APPROPRIATE FOR DISCRETIONARY EMPLOYEES IN MANUFACTURING

The profit sharing principle may also be advantageously utilized for compensating managerial employees in manufacturing establishments, since the flat salary operates as defectively with them as

with those occupying executive positions in retail stores. It was seen that unit profit sharing was especially well adapted to managerial employees in retail and branch stores. But this type of profit sharing is not so easily applied to manufacturing, where most departments are engaged in the interdependent processes of production, rather than buying and selling, and where it is usually more difficult to compute profits upon a departmental basis. Because of this interdependence and the resulting necessity for coöperation, most manufacturing concerns which use profit sharing distribute a portion of the profits of the entire business rather than of separate departments.

THE USE OF PROFIT SHARING IN MANUFACTURING ESTABLISHMENTS

A considerable number of manufacturing concerns have recognized the advantage to be obtained through sharing profits with those occupying the more important positions and are operating under this plan. The German-American Button Company of Rochester has been sharing its profits with certain of its employees in such positions for the past fifteen years. The American Rolling Mill Company of Middletown, Ohio, permits all salaried employees receiving one hundred dollars or more per month to participate in profits. A certain fixed percentage of profits is set aside by the Board of Directors to provide the fund for distribution, and all who participate are termed "special partners." A large bag manufacturing company, operating

numerous plants, shares its profits with all employees whose salaries are $1800 or more, making a payment to them whenever the company declares a dividend on its common stock. The payment is a percentage of the annual salary of the recipient at twice the declared dividend rate. The Ballard and Ballard Company of Louisville, whose distribution of profits among the rank and file has already been referred to, has a special plan for its salaried employees. In addition to the ten per cent of profits which it distributes among the wage earners, it pays thirty-six per cent of its profits to eleven others occupying the most responsible positions. Six employees, in addition to their salaries, are each paid five per cent of the profits, two are paid one and one-half per cent, and three receive one per cent.

The Studebaker Corporation, of South Bend, Indiana, divides profits with only those employees "whose responsibilities include spending the corporation's money, handling its property, making commitments for its account, and the employment and supervision of its employees." The participants are divided into four groups, receiving different shares according to the responsibility of the positions held. The Wayne Knitting Mills, of Fort Wayne, Indiana, has a profit sharing plan designed principally for two groups, the first consisting of the officials of the corporation, and the second consisting of some forty heads of departments.[1] Participation in each group is upon a different percentage basis. The Dennison Manufacturing Company

[1] For full description, see page 151.

permits all employees whose annual salaries exceed $1200 to share in its profits. The profits are distributed annually in the form of new stock as elsewhere described.[1] The Jacob Dold Packing Company of Buffalo shares its profits among the employees occupying the thirty-two most responsible positions.[2]

The Solvay Process Company, of Solvay, New York, has shared profits among the members of the higher paid ranks since 1888. Participation extends from the chief executive officers to subforemen, and includes both the commercial and manufacturing departments. Participants are divided into three classes, called First, Junior, and Senior, and the proportion of profits paid depends upon the class to which the individual belongs. In the Senior Class are included the chief executive officers and the chief technical men; in the Junior Class, the chief technical assistants, the foremen of important departments, the more important office men; and in the First Class are included others of the discretionary group down to junior clerks and subforemen. Haines, Jones, and Cadbury, of Philadelphia, have in operation a profit sharing plan for the benefit of forty-nine employees occupying the more responsible positions in the organization, although a profit sharing plan for the rank and file, after many years of experimenting, was finally abandoned as unsuccessful. Under the plan now in operation the forty-nine managerial employees are divided into

[1] For full description, see page 119.
[2] For full description, see page 149.

two groups. Group A consists of twenty-nine members, including the executives, department heads, and some assistant department heads. Group B is made up of twenty men in the less important discretionary positions. Of the amount of profits available for distribution, ninety per cent is divided among the members of Group A and ten per cent among the members of Group B. The Barcalo Manufacturing Company of Buffalo shares a percentage of its profits with its three most important employees. The J. K. Orr Company of Atlanta pays a percentage of its profits to its factory superintendents and another percentage to the foremen and the members of its office staff. An Eastern textile mill shares profits with ten or twelve of its principal employees, such payments taking precedence over all dividend payments.

THE APPLICABILITY OF PROFIT SHARING TO MANAGERIAL EMPLOYEES IN MANUFACTURING

Other methods of remuneration may in any particular case be more applicable for this class of employees. It may be that the results of the individual's efforts will lend themselves to exact measurement. Those in charge of production departments may sometimes be partially compensated upon a basis of departmental output by means of a bonus or premium upon production in excess of stated amounts. Or they may be paid a bonus for the reduction of departmental costs below stated amounts or percentages. Such direct rewards will doubtless prove more powerful inducements to

individual efficiency, when it is possible to apply them, than a share in the profits of the business as a whole. But bonus and premium plans for department heads and executives sometimes have their disadvantages. They may lead to a deterioration in the quality of the product, or to strained relations between the department head and the wage earners, who may feel that they are being overdriven. Such plans do not promote that coöperation between those in charge of the various departments, which is usually so important in manufacturing. Furthermore, in many cases, perhaps in most cases, the work of these employees cannot be definitely measured, on account of the diversity of functions which they perform and on account of the interdependence of the various departments in manufacturing.

Where it is difficult to devise any safeguards against the dangers above referred to, or where it may appear impracticable or impossible to base compensation upon individual results, profit sharing should prove highly useful in developing efficient management in manufacturing establishments. This statement is confirmed by experience. So far as could be learned, all the manufacturing concerns discussed in this chapter, which use profit sharing among their discretionary employees, are confident that valuable results to both the management and the employees have followed its introduction.

SUMMARY

Profit sharing possesses decided merits as a method of remuneration for managerial employees,

that is, those holding discretionary or executive positions, in both merchandising and manufacturing. It is not always the best method for those whose functions are limited or the results of whose efforts are readily measurable. Ordinarily, however, the work of this class can be measured only by its influence upon profits, and therefore the managerial group is one to which profit sharing is peculiarly applicable. Participation in some predetermined ratio in the profits of the business, or of some unit of the business, will generally cause employees in this group to exercise their imagination, foresight, alertness, vigilance, care, judgment, and those other qualities upon which the efficiency of management depends, more actively than a system of fixed salaries or any other known method of remuneration. For the purpose of promoting effective management among those in charge of departments in retail establishments and those in charge of branch stores, unit or departmental profit sharing is to be recommended, whereas general profit sharing is more applicable to manufacturing plants.

CHAPTER IX

PROFIT SHARING TO INSURE THE CONTINUANCE OF EFFECTIVE MANAGEMENT

THE PROBLEM

IN long established concerns, in which the ownership is in few hands, the time ultimately comes when the question of the continuance of the business must be considered. There may be no sons of the original founders competent or free to carry it on; the management is then likely to devolve on trusted employees. The problem arises as to how their best effort is to be evoked, and how, in the absence of the personal supervision of the original owners, the successful continuance of the concern is to be secured. These questions present themselves if the owners merely wish to be relieved, in whole or in part, of the responsibilities of management, although retaining their interest in the business; or in case they wish to provide for the passing on of their interest to others. When compensation based upon the measurable results of individual efforts is impracticable, as it usually is among managers and executives, profit sharing may offer the answer to both questions.

PROFIT SHARING TO INSURE SOUND MANAGEMENT — WHEN OWNERS EXPECT TO RETAIN THEIR INTERESTS

If the owner expects to retain his interests in the business for some time to come, but, worn by its cares, wishes to be relieved of much of the responsibility of management, profit sharing may be used to hold together a managerial staff, to secure from its members the effective discharge of the new responsibilities delegated to them, and to insure against impairing the quality of management. A successful manufacturer some time ago was notified by his physician that he must give up most of his business responsibilities and cares. The physician's orders were imperative. The manufacturer did not wish to sell his business or his interest in it. But he felt uneasy about the outcome if he should entrust the management entirely to hired hands and heads. He decided that while he must be relieved of his responsibilities he would retain the business and endeavor to protect himself by stimulating sound management from the members of his organization through the use of profit sharing. He introduced among them a plan of stock distribution under which a certain portion of the stock was assigned to them, to be paid for by them entirely out of the dividends which might be earned and declared upon it. A New England manufacturer who has successfully used profit sharing through stock distribution among his managers, when asked regarding the benefits produced by his plan, replied, "One of the

greatest has been the transfer of many of the responsibilities of management to others, with the confidence that they would be properly discharged. Since the introduction of this plan the business has been most successfully conducted, largely by my associates, employees who under my plan have become stock owners."

INSURING GOOD MANAGEMENT AFTER THE OWNERS HAVE SURRENDERED THEIR INTERESTS

Furthermore, profit sharing may be wisely introduced in order to provide for the continuance of effective management after the active heads or present owners shall have transferred their interests to others. Those who have built up a successful business usually wish to insure that the enterprise will remain a permanently prosperous one, not merely that it may produce an income for their heirs, but that the enterprise they have created may endure, unimpaired by the scattering of ownership among remote descendants.

MARSHALL ON HEREDITARY OWNERSHIP

The situation which frequently arises is ably described by Alfred Marshall, the English economist, in the following passage: "It would . . . at first sight seem likely that business men should constitute a sort of caste; dividing out among their sons the chief posts of command, and founding hereditary dynasties, which should rule certain branches of trade for many generations together. But the actual state of things is very different.

For when a man has got together a great business, his descendants often fail, in spite of their great advantages, to develop the high abilities and special turn of mind and temperament required for carrying it on with equal success. . . . For a time indeed all may go well. His sons find a firmly established trade connection, and what is perhaps even more important, a well chosen staff of subordinates with a generous interest in the business. By mere assiduity and caution, availing themselves of the traditions of the firm, they may hold together for a long time. But when a full generation has passed, when the old traditions are no longer a safe guide, and when the bonds that held together the old staff have been dissolved, then the business almost invariably falls to pieces unless it is practically handed over to the management of new men who have meanwhile risen to partnership in the firm.

"But in most cases the descendants arrive at this result by a shorter route. They prefer an abundant income coming to them without effort on their part, to one which, though twice as large, could be earned only by incessant toil and anxiety; and they sell the business to private persons or a joint stock company; or they become sleeping partners in it; that is, sharing in its risks and in its profits, but not taking part in its management; in either case the active control over their capital falls chiefly into the hands of new men." [1]

[1] "Principles of Economics," Marshall — Sixth edition, page 299.

THE DESIRE TO RENDER INVESTMENT SECURE FOR THE HEIRS

When this active control over the capital does finally "fall chiefly into the hands of new men," as sooner or later it must, then the problem is to make sure that they shall be men capable of managing and conserving it, and that they shall have an inducement sufficient to enlist the most effective use of their ability. A manufacturer who has built up a large establishment from small beginnings recently stated that he had no further interest in increasing the size of his estate, but that he was particularly anxious to render it secure for his heirs. For this reason he was contemplating the installation of profit sharing. The head of another prosperous concern, having but one child, a daughter who would not be actively concerned with the management of the business, recently made a similar statement. Doubtless there are many other owners of business enterprises who confront such a situation.

OTHER MOTIVES FOR WISHING TO INSURE CONTINUANCE OF GOOD MANAGEMENT

The owner's interest in the permanent prosperity of the business often rests on a broader basis than mere consideration for his heirs. The creative business man does not contemplate with pleasure the prospect that the business which he has developed may fall to pieces through bad management or be wrecked by speculators. His interest in the

future may include the community, which may be injured by the breaking up of a successful business. He may be concerned with the welfare of the employees, many of whom would suffer hardship by the winding up of the concern. A recent investigation of unemployment revealed the fact that many unemployed men who were beyond middle life, had been thrown out of work primarily because of the failure, liquidation, or absorption of the firms by which they had been employed during their more active years, and that their advanced years proved the chief difficulty in securing new employment. If for any of the reasons indicated, or for others of similar nature, it is desired to provide for the permanence of a business, to safeguard it against disintegration, and to insure the continuance of sound management, profit sharing with the managerial group may wisely be considered as an aid to the accomplishment of this purpose.

THE DENNISON PLAN. PARTICIPANTS

Three establishments which have carefully worked out plans to make probable the continuance of good management are the Maison Leclaire of Paris, the Dennison Manufacturing Company of Framingham, Massachusetts, and the A. W. Burritt Company of Bridgeport, Connecticut. The Dennison plan has been characterized as one which "aims first of all to secure the permanency of a successful business." In order to obtain this result, participation in the plan is confined to those who have had a substantial period of experience with the company, and who

have demonstrated their ability by arriving at a certain earning capacity. The participants are those employees whose aggregate service is seven years and who receive an annual salary of at least $1200, or who have been six years in service and are paid at least $1500, or who have been in the service five years and are paid at least $1800. The participants number two hundred and fifty out of a total of approximately three thousand employees, and may be said to be those who occupy positions largely managerial or discretionary in nature, including officials, heads of departments, superintendents, buyers, branch managers, foremen, and the older traveling salesmen.

THE METHOD

The plan was inaugurated in 1911 by the re-incorporation of the company. Unlike most profit sharing plans, the provisions for it are contained in the articles of incorporation. The owners of the stock in the old company became the owners of the first preferred stock in the new, to the amount of four million five hundred thousand dollars. This stock bears an eight per cent cumulative dividend. In addition, four hundred and fifty thousand dollars of second preferred stock and a special issue of "industrial partnership" stock are authorized. This industrial partnership stock is issued from year to year and is distributed only among those employees who are eligible to participate. After the payment of fixed charges and dividends upon the preferred stock and a dividend, if earned, of not more than

twenty per cent on the already outstanding industrial partnership stock, the remaining profits of the year are invested in the business. Against them is issued new industrial partnership stock. This is distributed among the participants in proportion to their salaries. The industrial partnership stock has full voting power on a basis of equality with the first preferred until one million dollars of it shall have been issued, when the first preferred stock becomes non-voting. The sole voting power is then vested in the industrial partnership stock.[1]

This means that the sole management of the business will rest in the hands of its principal employees. It will pass out of their hands only in case the dividend on the first preferred stock falls below the stipulated eight per cent rate. If, for any twelve months, dividends on first preferred average less than four per cent, or if for any twenty-four months such dividends average less than six per cent, the first preferred will take over the voting power until full obligations on first preferred shall have been again earned and paid. If for any period of four years the company shall not have paid all cumulative dividends in full, the first preferred stock shall permanently take over the exclusive voting privilege. But so long as the principal employees, owning the industrial partnership stock, conduct the business successfully, its control cannot pass into the hands of others. In order to retain the control with the

[1] Since the above was written, the industrial partnership stock has exceeded the $1,000,000 mark; it therefore has become the sole voting stock, and all the provisions of the plan are now in full effect.

participants it is further provided that only active employees may own industrial partnership stock. If a participant leaves the company or dies, his stock must either be converted by the company into cash, or exchanged for second preferred stock, which has no voting power and which carries a dividend at a rate determined by the by-laws, which, however, in no case is to be less than four per cent. The probability of failure to meet the dividend charges on first and second preferred stock is lessened by the fact that each year five per cent of the remaining net profits, after paying dividends on first and second preferred, stock is set aside as a fund with which to buy in shares of first preferred as occasion may arise.

PLAN SAFEGUARDS PREFERRED STOCK AND FURNISHES INCENTIVE TO PARTICIPANTS

The plan obviously aims in the first place to safeguard and protect the outstanding first preferred stock, as the owners of the industrial partnership stock can get nothing until the eight per cent upon the first preferred is met. But since it places the responsibility of earning this eight per cent upon the men who, with experience and proved capacity, are presumably most able to manage the business, it insures the attainment of its further aim, the constant accession of ability to the management. It also gives to these participants a strong motive for endeavoring to push their efforts beyond the point necessary to pay the eight per cent dividends on the first preferred stock, for any excess above

this eight per cent on the first preferred and the comparatively small amount required for dividends on the second preferred (issued in exchange for industrial partnership stock as already explained) goes to them. They may obtain it in the form of dividends upon their already outstanding industrial partnership stock, or in the form of new issues of such stock. There can be no new issue of such stock if the dividend upon their outstanding stock is not at least five per cent. If the amount available for the participants, however, exceeds five per cent upon the industrial partnership stock and is less than twenty per cent, they may receive any amount up to one-half of it in cash, depending upon the dividend rate, which may be fixed by the directors. In such case, whatever is not paid out in cash is issued in the form of additional industrial partnership stock. If the earnings available for the participants should be in excess of twenty per cent, all above this percentage must be paid out in the form of new stock. In any event, all earnings above the specified fixed charges, including dividends on the preferred stock, go to the participants, either in the one form or the other. Their stake in the success of the business is large.

OTHER RESULTS OF THE PLAN

The plan is apparently an effective provision against the disintegration of the business, even after the present owners of the first preferred stock have entirely withdrawn from the management. For in addition to protecting the rate of return on the pre-

ferred stock, it renders almost impossible any future control by stockholders who might be ignorant of the business or incompetent to direct it, by retaining the management in the hands of the participating employees, so long as they are able to keep up the specified charges. It excludes the speculator from any chance to manage, control, or wreck the business. It provides for the development of an organization among the chief employees which is likely to prove fairly permanent. It gives to them a strong sense of partnership through the ownership of stock which will possess the sole voting power, and which from the outset obtains all earnings in excess of the stipulated charges. The dividend rate upon the industrial partnership stock has varied from six to ten per cent. The management and the employees of the company are convinced that the plan is accomplishing its purposes.

THE MAISON LECLAIRE. EARLY PLANS

The Maison Leclaire of Paris, already referred to as a firm engaged in painting and decorating, is a splendid example of a business founded upon an enduring basis through the use of profit sharing. This concern has been operating successfully for forty-five years since the death of its founder, M. Leclaire, who, as far as known, was the first employer to practice profit sharing systematically. Leclaire used different plans of profit sharing during his life, but the last one which he put into effect and which still remains in operation, was particularly designed to prevent the breaking up of the business, and to

perpetuate it upon a profit sharing basis with that quality of management necessary to make profit sharing successful.

On February 15, 1842, Leclaire issued a statement entitled, "A Word to our Workmen," in which he definitely committed himself to the plan of dividing the profits of his business with employees, and gave the details of the plan. At the beginning he met opposition from suspicious employees. But all doubts were banished when, at the end of the first year, Leclaire collected his forty-four participants, threw upon the table a bag containing eleven thousand eight hundred and eighty-six francs in gold, and proceeded to distribute to each man his share (about fifty dollars). The share of each was based upon the wages which he had earned for the year, and Leclaire saw to it that the wages were as high or higher than the prevailing Paris rate. The next year the success of his plan was still greater. The number of participants rose to eighty-two and the profits were more than half as large again. For the first six years the average total divided among the participants as a dividend upon their wages was nearly four thousand dollars per year and the average amount was about fifty dollars.

In 1860 Leclaire somewhat modified the nature of his profit sharing plan. The Mutual Benefit Society in his establishment had accumulated in its treasury about one hundred and seventeen thousand francs. In 1860 it was incorporated and became a perpetual partner in the firm of Leclaire and Company. Of its one hundred and seventeen

thousand francs, one hundred thousand were invested in the firm, and on this investment the Mutual Benefit Society was to receive a five per cent interest return, together with a twenty per cent bonus from the net profits for old age premiums, while thirty per cent of the net profits were to go to the individual workers as a profit sharing dividend in proportion to their wages. Thus Leclaire divided the profits of the company evenly with the workers, paying them twenty per cent for the fund for old age premiums and thirty per cent for a dividend on their wages.

LECLAIRE'S MODIFICATION OF HIS EARLY PLAN

Leclaire desired to give final form to his profit sharing plan and to endow it with perpetuity, after his retirement from the business in 1865. In 1867 and 1868 he sent a list of questions to each workman, asking for advice and recommendations upon several points. About two hundred replies were received, which were carefully analyzed by a committee. The final scheme proposed by Leclaire, based on the recommendations of this committee, was approved by the workmen in mass meeting on January 6, 1869, and became the legal charter of the Maison Leclaire. This foundation consisted of the Maison Leclaire (the firm proper) and the Mutual Benefit Society, the so-called sleeping partner in the firm. The capital of the firm was made four hundred thousand francs; of this, the two managing partners, M. Redouly and M. Marquot, were to own one quarter each; the other half was

held by the Mutual Aid Society. The managing partners were each to receive six per cent on their capital holdings, in addition to salaries for their services. Of the remaining profit, one quarter was to go to the two managers jointly,[1] one quarter to the funds of the Mutual Benefit Society, and one half was to be divided among all the workingmen in the employ of the firm. Thus instead of the employees obtaining fifty per cent of the net profits as formerly, they were now to obtain seventy-five per cent thereof, after deduction of interest upon the capital of the managers. It should be here mentioned that at the beginning of this plan not all the workmen were included in its benefits, but only those who were older in service and were regarded as the most industrious. But in 1871 Leclaire secured the consent of the participants to a proposal that all employees should be eligible to share in profits.

THE "NUCLEUS"

A factor of great importance in Leclaire's scheme is the *noyau* or "nucleus," an inner group of about one hundred and forty workmen, which is influential in the administration of the affairs of the firm. Any worker to become a member must be a Frenchman, must have been with the firm for five years, and must be a skilled workman of good moral character. Members are elected by that body itself. From this group are drawn men for all the higher and more responsible positions. It is this group which chooses by vote a new partner in case of the death

[1] This is now fifteen per cent; see page 130.

or resignation of one of the managing partners. It has already exercised this function several times.

THE MANAGING PARTNERS

It is largely through the provision for this *noyau*, and the choice of managing partners by it, that Leclaire's plan endeavors to secure the continuance of effective management. The members of this group are in a position to judge the merits of the men who may aspire to the managerships. That the members will endeavor to make the best choice possible will readily be understood when it is remembered that the administration of the affairs of the firm lies entirely in the hands of these partners and that the amount of profits to be divided depends largely upon the wisdom of the choice made. As already pointed out, the two managing partners must have capital in the enterprise. But this does not prevent the poorest man in the firm from filling the place, in case his companions deem him best fitted. For it is provided that in case a new partner is unable to provide the necessary one hundred thousand francs capital, the capital of the deceased or retiring partner shall remain in the firm until the new partner is able to provide it from his share of the profits, which ordinarily should not take more than three to five years. These two partners are the managing directors with all the usual powers of partners or directors. They are selected for an indefinite period. They can retire when they wish, or either of them may be required to resign if requested to do so by the other and the president of

the Mutual Benefit Society, on the advice of the two members of the "nucleus" delegated for the control of accounts.

THE INCENTIVE OF THE MANAGING PARTNERS

Another element of strength in the plan is the provision which gives to the two managing partners a substantial interest in the profits. In order to encourage these two managers to their best efforts, twenty-five per cent of the profits were originally assured to them in addition to six per cent upon their capital invested and their salaries. This has since been changed to fifteen per cent of profits and five per cent upon their capital investment. Their salary is approximately twelve hundred dollars each, and in 1910–11, the last year for which figures are available, their total income from profits was about sixteen thousand dollars.

PRESENT STATUS OF THE MAISON LECLAIRE

Leclaire died in 1872, but for several years before his death he had not been identified with the management of the business. He was greatly pleased to find that under his plan the business was successful, even though he was not in it. The firm is still in existence in Paris and is doing a prosperous business under the name of Brugniot, Cros et Cie. The house enjoys a reputation for the most thorough work and does much of the higher grade work in painting and decorating in Paris and throughout France. During 1910–11 it employed 1237 persons, consisting of sixty-one members of the salaried staff, one hundred

and thirty-six workmen, members of the nucleus, and one thousand and forty other workmen. The plan has undergone some minor changes since Leclaire's death, but his general policy is still followed. The division of profits is now as follows, — after the payment of five per cent interest on capital, fifteen per cent goes to the active partners and thirty-five per cent goes to the Mutual Benefit Society. This fund is drawn upon for sick benefits, accident benefits, pensions for old employees, and pensions for widows of members and their orphans. Only those who have been with the firm for five years are eligible as members of this organization. The benefit fund is supported solely by the share of profits which goes to the Society, no premium payments being required from its members. The other fifty per cent of profits is divided directly among the workpeople and the salaried staff in proportion to their wages and salaries. The ratio of profit sharing payments to wages has varied from twelve to twenty-four per cent per year.

RESULTS OF THE LECLAIRE PLAN

It is a question whether Leclaire, in introducing profit sharing, was actuated more largely by business or by humanitarian purposes. Both purposes were doubtless present, but that Leclaire was a long-headed business man is shown by the itemized calculation which he made when he first introduced profit sharing, showing that this plan would create an increased return large enough not only to pay the wage dividends to the employees, but also to

increase his own returns. Leclaire attributed his business success to the use of profit sharing, which he believed had secured the coöperation of his men. Whether he actually increased his wealth by his earlier profit sharing plans it is impossible to state. But certainly his later plan for perpetuating a prosperous business, under capable management, and upon a basis which would protect the capital invested, and also permit of generous payments to the participants, has up to the present operated successfully to secure these results.

THE BURRITT PLAN

The practice of selling common stock to executives on an easy payment plan had been in operation with the A. W. Burritt Company for twenty-four years, prior to the inauguration of its present plan, and the satisfactory result was one of the causes leading to the development of the present plan. This new plan has objects somewhat analogous to the Dennison and Leclaire plans. The company announces that one of the purposes of its plan is "to accomplish an equitable distinction between investment, purely as such, and creation or effort; to insure invested capital, held by those who are not active participants in the management of the business, a fair return on the investment and ample security of its interests."

PREFERRED AND COMMON STOCK

It has therefore been provided that capital representing investment only, unaccompanied by active

participation in the management of the business, shall be restricted to preferred stock, whereas all the common stock is to be held by those in the active service of the business in executive or important positions. This common stock may be contracted for by the payment of ten per cent of the purchase price by the employee, the other ninety per cent being credited to his account out of profit payments when earned. Participants may make an initial subscription of one thousand dollars par value of such stock for the first one thousand dollars of their salary, and for five times the amount by which their salary exceeds one thousand dollars. This arrangement rests upon the theory that the more responsible the position, the more desirable it is that the employee should have a substantial stake in the success of the business.

At the outset of the plan, February 1, 1917, the actual issue of first preferred and of common stock ($700,000) corresponded to the investment in the business. Of this two hundred thousand dollars is first preferred, and represents investment upon the part of those not now active in the management of the business. Five hundred thousand dollars is common (seven hundred and fifty thousand dollars authorized) and may be held only by officers or other managerial employees actively engaged in the conduct of the business. In addition the company may issue second preferred up to five hundred thousand dollars as needed, to use in exchange for common, whenever the holders of common, for any reason, leave the employ of the company.

The first preferred is entitled to a seven per cent cumulative dividend, whatever may be outstanding of the second preferred to a six per cent dividend. The common stock, held by managing employees, receives dividends only in case there are no arrears on the first and second preferred stock. The second preferred, when issued in exchange for the common stock of retiring employees, is to be issued at par, and the value of the common stock in making the exchange is to be determined by inventory. The second preferred stock, all of which will be owned by those who are no longer in the employ of the company, or by their heirs, is retirable. It may be retired by the vote of three-fourths of the entire outstanding capital stock. The retirement must be in the chronological order in which the stock was issued, each year's issue being considered as one issue. While any second preferred stock remains outstanding, no dividend in excess of six per cent shall be declared upon the common stock, but it is expected always to retire the second preferred as rapidly as possible.

VOTING ARRANGEMENT

All the stock possesses the voting privilege on a basis of equality, so long as dividend payments are maintained on the preferred stock. However, if the company shall fail, for four successive quarterly periods, to pay the regular dividends on the first or second preferred stock, the holders of the first preferred stock become then entitled to elect a majority of the Board of Directors, the holders of

second preferred become entitled to elect one director, the holders of common stock being entitled to elect only the balance of the minority representation. As soon as all arrear dividends upon first and second preferred stock shall have been paid, the directors shall cease to be divided into classes, elected by the various classes of stock. Thereafter the stock resumes equal voting power.

THE PROTECTION OF INVESTORS AND INDUCEMENTS TO MANAGING EMPLOYEES

Since this plan was introduced this year (1917) it is too early to discuss its results. But it will be clearly seen that it is well devised to accomplish its purposes. Those responsible employees who hold common stock have a strong inducement to the most effective effort of which they are capable. During the earlier portion of their service, when their stock is not yet paid for, they are particularly anxious that profits shall be large, in order that their stock may become paid for the sooner. Unless earnings are at least large enough to meet the dividends on the preferred stock, there is nothing available for them. After their first stock is completely paid for, they have the privilege of an additional subscription on the same basis as the first, so their incentive continues. They are furthermore desirous that the dividends on preferred stock shall not fall in arrears because they wish to retain the voting privilege. They are also concerned that earnings shall be sufficient to make possible the retirement of any second preferred stock outstanding, for when

such stock is retired, all limitations upon the dividend rate on their stock is removed. The holders of the preferred stock are protected in that, if there should be any arrears in their dividend payments, they take over the majority control. This privilege gives them the power to formulate the policies of the business, in case it should be conducted so poorly that their dividends are not kept up. The possibility of outsiders or speculators securing control of the business is precluded, for the common stock can be held by officers and other employees only, and it will always constitute a majority of the outstanding stock.

Thus the active managing officers and employees are given a powerful inducement to their best efforts, the returns on the holdings of the non-active investors are protected, and the continuity of the business is provided for.

SUMMARY

The profit sharing principle may well be used when the purpose is not merely to increase immediate dividends but to promote the long-run stability of the business. Thus far it has not been widely introduced for this purpose, and those who would use it in this way will find but little experience to guide them. But what experience there is appears highly encouraging to a wider application. The Dennison, Leclaire, and Burritt plans indicate some of the adaptations which may be made of the principle. Obviously it is not wise to rely simply upon the use of profit sharing. Here, as in the use

of any other means of remuneration, the men must be wisely selected with a view to their ability to discharge the functions expected of them. But once they have been thus chosen, the transfer of managerial responsibility to their hands can be made much more confidently if arrangement is made whereby they are to participate in profits.

CHAPTER X

PROFIT SHARING TO PROMOTE THE SPIRIT OF COÖPERATION

DESIRABILITY OF COÖPERATION

IN occupations which require the organization of a number of collaborators, the spirit of "team work," of willing coöperation, is of great advantage. It has been found that profit sharing, when wisely applied to some groups of labor, is exceedingly effective in promoting this spirit. As has already been pointed out, payment based upon individual results is in many labor groups the most direct stimulus to endeavor, but its use is not always desirable. It may produce competition among employees so keen that the resulting selfishness, jealousy, and rancor become inimical to the business.

DANGERS OF COMMISSIONS FOR INSIDE SALESMEN

Such a danger obviously varies with the character of the enterprise and with the duties of the employee. It is one particularly likely to arise among inside salesmen, who, when placed upon commissions, may endeavor simply to increase their own sales, and neglect the interests of the business as a whole. One employer complains that his salesmen operating on commissions frequently are over-

courteous to those who they think will prove large purchasers, but are rude and discourteous to the ones they "size up" as unlikely to buy. Other employers find that retail salesmen on commissions are likely to permit old goods to accumulate until they become unsalable, preferring to push the newer goods and latest novelties, which sell easier. Having made their own sales, they fail to promote sales with the same customer for other departments. The salesman on commissions is frequently inattentive to those whom he regards as another salesman's "regular customers," upon the assumption that if such customers buy they will probably buy from the other salesman. He often manifests his displeasure if a customer whom he regards as his own "prospect" buys from another salesman.

A customer recently went into one of the high grade stores of New York to buy rugs. He looked at the goods, obtained the prices, made no purchase, but took the salesman's card. When, later in the day, he returned, he was unable to find the salesman, whereupon he naturally went to another salesman and purchased the rugs from him. Before the customer had left the store the first salesman approached him, and upon finding that he had made the purchase from another began to berate him soundly for being unfair. "Why —" said the purchaser, "I didn't suppose I was buying from you. I thought I was buying from X——s" (mentioning the name of the store). But the purchaser will not soon forget the unpleasant situation. Since each salesman is interested primarily in his own sales,

the individual commission system not only produces such occasional discourtesy, but also tends to check the free interchange of information regarding new and successful methods of getting orders or making sales. Furthermore, salesmen paid in this way have little direct incentive, except the fear of discharge, to prevent those losses which arise from the damage and breakage of goods.

OTHER METHODS FOR SALESMEN

Instead of the simple commission, the task and bonus principle is also used to stimulate and reward the individual effort of salespeople. This may take the form of a special payment above the regular salary for sales attaining or surpassing a stipulated amount. Some firms establish for each department what they regard as a proper percentage of salary to sales. This "department percentage" is of course higher in the departments selling the small and less expensive commodities. Such arrangements may prove effective in inducing individual effort, but like the straight commission, they fail to promote a coöperative spirit and to eliminate harmful rivalry and competition within the business.

COÖPERATION MORE ESSENTIAL AMONG INSIDE THAN AMONG TRAVELING SALESMEN

Since traveling salesmen are scattered and not in constant association with each other, a stimulus to coöperation is not so essential as among those working together in a retail establishment, though there is also opportunity for "team work" among

traveling salesmen. For them, however, the advantage of profit sharing, as was noted in an earlier chapter, rests largely upon its power to promote individual efficiency. But among retail salesmen profit sharing fosters also the coöperative spirit.

THE TWO ASPECTS OF COÖPERATION

This spirit has two aspects. It is desirable that employees should be willing to pull together, and to help each other in promoting the interests of the business. But it is equally desirable that they should be willing to coöperate with the management in recognizing what those interests are, and in supporting intelligently the policies of the concern.

THE STAMBAUGH THOMPSON COMPANY'S PLAN

One of the most interesting of the retail establishments which share profits with salesmen is the Stambaugh Thompson Company, a hardware concern of Youngstown, Ohio. This company is now (1917) in its fifth year of profit sharing, and the management is enthusiastic as to its practicability among retail salesmen. The plan is an exceedingly simple one. Six per cent on the inventory value is first deducted from the year's profits. Any remaining profits are divided into two equal parts, one going to the company and the other half being distributed among the employees in proportion to their salaries. All employees, of whom there are about one hundred, participate in the distribution of profits, but the largest group is composed of the salesmen on the

floor. The wage dividends have been twenty-six per cent, thirteen per cent, and twenty-one per cent of the regular salaries. The latter are as large as paid in competing establishments. A chart on the wall of the president's office shows that sales and profits have increased with great rapidity since the inauguration of the plan, and the management is confident that profit sharing is one of the chief factors in the extraordinary growth. It declares that one of the most important changes produced is the development of the spirit of coöperation among the salesmen and the willingness to "pull together" for the success of the company.

HOW COÖPERATION MANIFESTS ITSELF

A visit to this successful establishment convinces one of the courtesy, alertness, and cordial coöperation of the salesmen. This coöperative attitude expresses itself among them in many ways. For example, when a builder comes in to buy the heavy hardware for a building, the salesman, after making the sale, endeavors to "pass him on" to the electrical fixture department or to some other department in which he might fill his other needs. The salesmen also show a willingness to offer helpful suggestions and to register complaints of customers. They do not compete to get the "good" customers and are uniformly courteous toward all customers. So alert are the men in coöperating to promote the interests of the company, which they feel to be their own interests, that the management has now found it possible, without impairment of service to cus-

tomers, to dispense entirely with the services of a floorwalker. The company also claims that its percentage cost of wages to sales is unusually low and attributes this fact to the efficiency and co-operation of its salesmen. The management further reports that it believes profit sharing superior to commissions because of the interest taken by the salesmen in reducing costs, as, for example, in the reduction of breakage and in exerting pressure upon those who loaf or "soldier."

A PLAN USED FOR DRUG SALESMEN

A druggist in Ohio has a profit sharing plan in operation for the three highest paid out of his eleven salesmen. To each of these he allows five per cent of the annual net profits, in addition to regular salaries, with the assurance that the plan will be continued at least until the aggregate profits obtained by each amounts to two thousand dollars. He reports that this plan has had a marked influence in developing among the participants a spirit of team work. The proprietor finds it possible to absent himself from his business for considerable periods of time, the three participants during his absence assuming entire responsibility for the conduct of the establishment. In addition to the coöperative attitude the proprietor reports other advantages. Greater care is shown in preventing breakage, an item of importance in the drug business. The participants are especially watchful about not permitting specialties to become shelf-worn and out of date. They are more careful about extending credit.

The annual net earnings have increased by more than the fifteen per cent paid to the three participants, and the owner is convinced that the plan has more than paid for itself.

A PLAN FOR CLOTHING SALESMEN

A unique application of the profit sharing principle to retail salesmen is the plan of the Benoit Clothing Company, which operates a chain of clothing stores in New England. Under its system the company pays a flat wage corresponding to the market rate for the salesmen's services. To this is added a share in profits in proportion to salaries, distributed eight times during the year. The net profits for each period are computed by deducting from the gross income all operating expenses and six per cent upon the capital invested in the business. Of the amount thus arrived at, a percentage goes to the employees, the remainder to the company.

The unique feature of this plan is that the proportion of the divisible profits which goes to the participants varies in different periods. Most of the periods consist of one month, but dull months are grouped together. In the dull months, during which the clothing business is usually slow, the percentage of profits which goes to employees is greatest. In the good months, when the clothing business is active, the percentage of profit going to employees is smallest. The percentage of net profits which is paid to employees in the different periods varies from twelve per cent in the active months to fifty per cent in the dullest periods, such as July and

August. The plan is one which is plainly calculated, among other things, to increase the volume of business done during dull periods by increasing the salesmen's incentive. The frequency of payments helps the salesmen to hold the profit sharing feature constantly in mind. The plan is reinforced by another device. Each month the salesmen are given a "sales slip" which shows the exact amount of their sales for each day of the corresponding month in the preceding year. Then each morning the cashier registers on this slip the amount of their sales for the preceding day. This serves to put the salesmen under constant pressure to increase sales.

RESULTS OF THE BENOIT PLAN

The management regards this plan as greatly superior to commissions, and finds the superiority largely in the element of coöperation secured. It believes that commissions, while they may operate to increase sales in the short run, do not promote quality of service to the patron, that this can be obtained only when the institution is animated by a coöperative spirit, and that this is possible only where the salesmen are not competitors of each other — but are coöperators with each other. It is reported that in this establishment there is not the "soldiering" which results from the flat salary, or the purely selfish and individualistic attitude which results from commissions, but that there is a united endeavor to work for the good of the store. Profit sharing here, as in the other retail establishments studied, results in helpful criticisms of the

methods in use, suggestions for improvements, preventing the accumulation of shelf-worn goods, and hearty pulling together between individual salesmen and between departments.

LIMITATIONS OF PROFIT SHARING AMONG SALESPEOPLE

It is not maintained that profit sharing is the best method of compensation for all retail salespeople. It is significant that the stores in which it has been used with success are not large ones. It is difficult to believe that profit sharing in a large mercantile establishment or department store would succeed in developing a hearty spirit of coöperation among the salespeople to the same extent that it has in the stores described. In such an establishment, carefully divided into departments, with each one systematized and vigilantly supervised, the coöperative spirit, even if possessed by the salespeople, would have a much smaller opportunity to express itself. And it is difficult to believe that profit sharing would prove effective among the salesgirls in a ten-cent store, where little salesmanship, ability, or coöperation is required. But in comparatively small establishments, where an *esprit de corps* can be more easily developed than in a larger establishment, profit sharing may achieve important results by the development of the coöperative spirit, particularly if a considerable degree of responsibility and discretion is intrusted to the salespeople.

DESIRABILITY OF COÖPERATION AMONG THE MANAGERIAL STAFF

The spirit of coöperation is especially necessary among those performing managerial and supervisory functions. Usually it will not suffice that one occupying such a position should be simply a man capable in the performance of his individual duties. He must also be a good coöperator; he must fit well into the organization; he must think of the business as a whole. The sales manager must coöperate with the advertising man and the credit department, the purchasing agent must coöperate with those in charge of production, the employment manager must coöperate with the various foremen and superintendents immediately in charge of the workmen, the accounting department must coöperate with every other department. The superintendents of the various departments must coöperate with each other. The necessity of coöperation in these grades is great. If there is self-seeking individualism in the managerial ranks, if bickering or enmity prevail, if these employees are anxious merely "to pass the buck" or to put each other "in a hole," the business cannot expect to meet with any large degree of permanent prosperity. But if the principal employees work together and are eager to correct errors rather than to shift responsibility for them on to others, the business may confidently rely upon a much larger measure of success. A well-knit and harmoniously functioning organization among the executives, and among

those in positions of responsibility under them, is one of the most valuable assets which any concern can possess. Therefore it is important that executives, superintendents, heads of departments, assistant heads, and others of the managerial group, should have an interest not only in the work for which they are held responsible, but also in the results of the other departments and of the business as a whole. Profit sharing can be used successfully to develop this type of coöperation. It may be claimed that such coöperation can be secured without profit sharing, if the employer insists upon it as a quality necessary for retaining the position. That coöperation among the discretionary group of employees may be obtained, in a measure, without profit sharing is granted. But if these important employees be paid a share of the profits of the business their coöperative point of view will be materially enlarged.

COÖPERATION IN A TEXTILE MILL

As indicated in an earlier chapter, profit sharing is in use among the managerial group in a considerable number of manufacturing establishments. Its power as an inducement to coöperation is emphasized by nearly all these concerns. The president of a textile mill which uses profit sharing for its officials and chief employees calls attention to the value of the coöperative spirit which may be developed among the members of the managerial group through this method. In this establishment the president, the treasurer, the secretary, the

assistant treasurer, who is in charge of the production department, the superintendent, the cashier, the purchasing agent, the engineer, the superintendent's first assistant, the night superintendent, the weave room foreman, the head of the labor department, and the salesmen are on a profit sharing basis. The profit payments constitute a very important part of their compensation. The president writes: "It was my thought in establishing profit sharing among these individuals that it would help to knit them together as a team — as I am of the opinion that profit sharing does knit an organization together, to some extent at least."

MANAGEMENT SHARING AS A SUPPLEMENT TO PROFIT SHARING

When the participants in profit sharing are employees exercising functions more or less managerial in nature, participation in management may be combined with participation in profits in such a way as to increase greatly the effectiveness of each. Participation in management may take several forms. The simplest is the ownership of voting stock. This gives to the employee a voice, although usually a small one, in the formulation of the company's policies and in the choice of its directors. If, however, a corporation for reasons of its own may not wish to distribute its stock, yet desires to develop a strong spirit of coöperation, it may accomplish this result by group participation in management, combined with profit sharing.

Certain group functions of management, in addition to those which would naturally be imposed upon the employees by their own positions, may be delegated to them. When the participants share in the general profits of the business they may well be brought together in committees or organizations for the consideration of various problems of management affecting the several departments of which they may be in charge, or with which they are connected. Such meetings have been found valuable in plants where there is no profit sharing. Coming regularly and frequently, they serve to stimulate more effective activity through group discussions of methods, criticisms of existing practices, and suggestions and recommendations as to possible improvements. But coupled with profit sharing they give the men a double incentive. If a profit sharing plan applying to managerial employees has for its chief purpose the stimulation of individual efficiency, this aim may be realized without such an organization, but if a large degree of coöperation is regarded as an important purpose, some form of management sharing appears an almost indispensable supplement to profit sharing.

MANAGEMENT SHARING AT THE JACOB DOLD PACKING COMPANY

The Jacob Dold Packing Company of Buffalo is one of the concerns which have effectively united profit sharing and management sharing. This company retains the first one hundred thousand dollars profits of the business, with no deductions for

interest or dividends, as a return upon investment and risk. If the profits exceed one hundred thousand dollars but are less than two hundred thousand dollars, ten per cent of the profits is divided among participants; if the profits exceed two hundred thousand dollars, twelve and one-half per cent thereof is available for distribution. The fund to be distributed is divided into two portions, eighty per cent of it going to the Executive Council and twenty per cent to the Junior Council.

The Executive Council of twelve members comprises those men who occupy the positions of largest importance, such as the general superintendent, the general plant manager, the purchasing agent, the sales agent, the export manager, the employment manager and others of like importance. The Junior Council consists of twenty heads of smaller or less important departments and assistant heads of departments. Each of these bodies meets for one hour each week for the discussion and consideration of the various problems of the business, which arise out of their respective departments and activities. The Executive Council discusses freely the general conditions of the business, the improvements shown or the unfavorable conditions existing in any department, and the reasons therefor. It considers the desirability of changing methods, or of introducing improvements in any department. In the introduction of new methods or policies its powers are simply advisory, as such recommendations must be passed upon by a small "Managing Committee" composed of three members of the Executive Coun-

cil itself. The Junior Council likewise possesses advisory powers only. Recommendations from it must be approved by the Executive Council and by the Managing Committee before they can be effective.

These meetings of the two organizations prove most stimulating. Criticisms of the conduct of the various departments are constantly being advanced, together with valuable suggestions for improvements, and members are called upon to defend their practices or policies, or to justify the results achieved by their departments. It is safe to say that an obsolete or ineffective method could not long continue to run the gauntlet of these two organizations. For in their scrutiny and search for weaknesses in the organization the men are animated by their desire to make their own share of profits as large as possible. The management reports that these two principles of profit sharing and management sharing have produced remarkable results and that this combination has in large measure increased the individual effectiveness and the coöperative attitude of the participants.

MANAGEMENT SHARING AT THE WAYNE KNITTING MILLS

The Wayne Knitting Mills, of Fort Wayne, Indiana, also successfully combines participation in management with profit sharing. This company has a profit sharing plan under which there is a fixed return established upon the common and preferred stock. All profit in excess of this fixed

return is divided, half to the company, and half to the heads of departments and to a few of the rank and file who are not on piece work. The proportion of profits assigned to these few wage earners is comparatively small, since the plan is designed primarily for the officials and department heads. Of the total available for distribution among employees, the officials of the company each receive a definite and fixed percentage. The remainder is divided among the heads of departments according to the decision of the president and his Executive Committee, except that the small amount for the few wage earners is first deducted. The participating heads of departments and overseers are members of the "Textile Industrial Club," which is really an organization for participation in management. The club meets once every two weeks for the consideration and discussion of plant problems, primarily those of production and of departmental efficiency. In these meetings policies are formulated and suggestions and recommendations are made. If a department makes a poor showing as to output or costs, the head of that department is immediately called upon for an explanation by his fellow participants, who are keen to point out to him methods by which this unfavorable situation may be remedied. There is no hesitancy about taking up matters the adjustment of which extends beyond the powers of the members, as the Club is encouraged to make recommendations to the proper officials. Attendance at the meetings is practically compulsory, since the club drops its members for non-attendance, and

forfeiture of membership in the club disqualifies an individual from receiving a share in the profits.

The management looks upon this organization as a vital factor in the success of its profit sharing method. The president of the corporation insists that if the participants were merely informed that they would annually receive a share in profits, and were handed their checks at the end of the year without being thus brought together for coöperation in management, little would be accomplished. He believes that it is this organization, the membership and interest in which is maintained through profit sharing, which secures a coöperative spirit and renders the men keenly alert to increase profits.

VALUE OF ORGANIZATION FOR MANAGEMENT SHARING

The importance of some well worked out plan of group participation in management, if profit sharing is to be successfully conducted for the purpose of developing coöperation among the employees of the managerial group, cannot be emphasized too strongly. Of course it is true that all such employees by virtue of their own positions are already to a greater or less extent participating in the functions of management. But it is the organization of the group into a committee, council, club, or similar body, for the consideration of general and departmental problems of management, which produces particularly valuable results.

Such an organization can be successfully held together and the interest of its members developed

and maintained through the realization that they share in the profits of the business, a fact which will be constantly and forcefully impressed upon their minds by the frequency of the meetings. The aggressive and critical attitude of the organization will serve to spur each man to his best efforts in the discharge of his individual duties. The wish not to appear inefficient before his comrades in these group meetings causes him to endeavor to make as good a showing as possible. The information brought to him in these stimulating conferences regarding methods in use in other departments, and elsewhere, puts him on the alert to secure reductions in costs, additional economies, and improvements in his own department. Furthermore, the mere fact that special opportunity is thus given for the joint consideration of matters of common interest, which affect the profit share of each, greatly promotes the spirit of coöperation among the participants. By offering criticisms and suggestions to each other, and by considering each other's problems, they acquire a genuine sense of responsibility for the outcome of the business as a whole.

MANAGEMENT SHARING IS PARTICULARLY SUITABLE FOR GENERAL PROFIT SHARING

The recommendation of organization for management sharing, to aid and reinforce profit sharing among the higher paid groups applies obviously to general profit sharing. If the profit sharing plan is based upon departmental or individual profits, management sharing has little or no place. But if

departmental profit sharing includes not only the head of a department but several subordinates, the organization of such participants for the consideration of departmental problems and policies should bring about an increase both in individual efficiency and in the coöperative attitude within the department.

THE POWERS AND ORGANIZATION OF MANAGEMENT GROUPS

In most plans which provide for participation in management, the powers of the committee or group are purely advisory, and in most cases this should suffice. But it must not be thought that because the powers of a committee are only advisory that they are of little weight. For the executive who should regularly ignore his committees' advice without good reason, or who should fail to submit to the committee or group important matters which normally should come before it, would seriously weaken his organization. Likewise the member of such a group who should show himself unwilling to receive suggestions and recommendations from the other members would soon endanger his standing in the concern. It would be a digression to discuss in this volume all aspects of the interesting problem of the participation of employees in management, through the committee system and otherwise. Considered here simply as a valuable adjunct to profit sharing for certain groups, it suffices to point out that the membership of the organization should include those whose knowledge is desired, and

whose efforts will contribute to the success of the profit sharing plan, but most especially those whose training in coöperation is essential; that the scope of activity of the group or committee should be definitely outlined, its size should be adapted to its work, and its meetings should be fairly frequent.

OBJECTIONS TO MANAGEMENT SHARING

Group or committee participation in management may doubtless be obnoxious to those employers who still hold to autocratic control of industry. Managing boards have been described as long, narrow, and wooden. Their discussions may appear to some executives time-wasting and inefficient. It is probable that the matters handled at any one meeting of such a group could often be as well and more quickly handled by a single executive. But efficiency is not everything — even in business. A great executive is accustomed to say "Efficiency is a great thing, but wisdom is greater, and wisdom comes by discussion." Certainly for the particular purpose of enlisting hearty coöperation and of developing the spirit of team work among discretionary employees who participate in profits, organization for management sharing will be found to be worth far more than the time lost.

MANAGEMENT SHARING AMONG THE RANK AND FILE

How far the formation of groups and advisory committees for participation in management can be extended to the wage earning group is one of the

most interesting problems of modern industry. A discussion of this question would belong more properly to a volume on policies of management. Many concerns have already some committees in operation among the rank and file. Safety committees are being urged by compensation insurance companies, fire prevention committees are not uncommon, and those for the management of sick benefits or organized recreation are widely accepted in principle. Is it not probable that committees of workers can be formed equally well to deal with other aspects of the business which affect them directly, and on which they are competent to advise, as for example: savings, suggestions, hiring and firing, health, pensions, grievances — and even wages? Obviously such organizations, if they could be made to function wisely, would greatly increase the coöperative spirit, either with or without the use of profit sharing. Considering the vast fund of inside knowledge of conditions which the employer of a large establishment so rarely has any access to, the elusive but highly important "workers' point of view," and, not least, the great possibilities in the field of educating workers in coördination of effort, the significance of the problem of participation in management by the wage earners becomes apparent. It is not unlikely that the near future will see promising experiments in this field. But at present, in most of the profit sharing plans among the rank and file, little or no provision has been made for management sharing.

SUMMARY

It is clear that a coöperative spirit is highly desirable among those employees whose joint activity is so large a factor as to make their attitude towards each other of vital importance to the success of an enterprise. Among the most important classes of this category are salespeople in retail stores of small or moderate size, and members of executive or managerial staffs. In the case of the latter, organization for management sharing may prove a most useful reinforcement to profit sharing. Profit sharing and group management are not inseparable principles. One frequently exists without the other. But if a plan aims primarily to reach a limited number of managerial employees and to develop a strong coöperative spirit among them, each principle will work better if accompanied by the other.

CHAPTER XI

THE SCOPE AND LIMITATIONS OF PROFIT SHARING AS AN INDUCEMENT TO EFFICIENCY

THE RELATION OF PROFIT SHARING TO RANK OF PARTICIPANTS AND TO THEIR NUMBER

THE development of the reasoning in the preceding chapters has pointed with increasing clearness to one fundamental conclusion. That conclusion, usually ignored in discussions of the subject, may now be formulated in the following manner. Regarded purely as an efficiency method, as a business arrangement for increasing profits by sharing them, the effectiveness of general profit sharing is in direct relation to the rank of the participators, and in inverse relation to the size of the concern or of the participating group. This is a fact drawn from experience. The same conclusion may be stated as a rule. When efficiency of the individual and of the business as a whole is the chief aim of profit sharing, it should be applied, except among small groups of workers, to those who most directly influence the making of profits. This relationship between the rank of employees and the efficacy of profit sharing rests upon fairly obvious considerations, some of which have already been mentioned.

THE OPPORTUNITY TO INFLUENCE PROFITS IS GREATER AMONG DISCRETIONARY EMPLOYEES

1. With the position of greater responsibility goes the greater influence on profits. Even though his natural ability might be as great, the opportunity of the unskilled worker to influence profits by increased effort or diminished waste is not so great as that of the skilled worker. The high wages of the latter make his time more valuable to the employer, and he is intrusted with more expensive equipment, machinery and materials. The skilled worker cannot, as a rule, affect profits to the same extent as the foreman, since the latter, by effective supervision, may increase the output of all those under him. Similarly the opportunity of a foreman to influence profits is ordinarily less than that of those who, as members of the managerial or executive group, formulate the policies of the business.

THE DIFFERENCE LIES IN THE NATURE OF THE POSITIONS

Negligence, "loafing on the job," failure to see or to promote the company's interest, is more expensive to the employer when it exists among those occupying the more responsible positions; and contrariwise, increased efficiency and alertness to see and to promote the company's interest is more profitable among those occupying these positions. The purchasing agent, by a shrewd purchase or by failure to grasp an opportunity for such a purchase, may in a half hour affect the year's profits

for good or for bad more than a shop foreman could in a whole year of active endeavor. The head of a department in a retail merchandising establishment, by able supervision, effective arrangement and wise pricing, may influence profits to a much larger degree than could the salesgirl in his department, however faithful and efficient she might be at her task. The difference lies in the nature of the positions and the consequent scope of responsibility.

CHANGES AND IMPROVEMENTS ORIGINATE WITH THE HIGHER SALARIED EMPLOYEES

The obviously greater opportunity of the higher salaried employees to influence profits is still more evident when it is remembered that upon them rests the duty of making plans and of introducing changes in methods. This is one of their chief functions; it is the function of the rank and file to produce or to sell in accordance with instructions. This need not imply merely a blind or passive obedience, nor a derogatory relationship between employer and employee. But modern industrial organization, like its analogue, the military machine, demands the recognition of leadership and self-respecting discipline.

In the search for improved methods and efficiency, the members of the managerial groups, abusing their authority, have many times failed to give due consideration to the welfare or the rightful claims of the wage earners. From the standpoint of labor, changes in methods of work or pay are judged on the basis of their effect on the conditions of the workers; if they do not share in the benefits, sus-

picion of the employer and antagonism to change are the outcome. This attitude is not inevitable or necessarily inherent in the modern industrial system. The employer who is fair as well as progressive finds that his workers appreciate his enterprise, take pride in the leadership of the business and recognize that labor may ordinarily expect the most favorable treatment from the concern most alert to introduce the most improved processes. In a recent industrial dispute in France, the workers accompanied their demand for higher wages with the suggestion that the management introduce scientific management.

The necessity of long-run efficiency as well as short-run profits imposes a heavy responsibility on the higher placed employees. Therefore, a method of compensation which stimulates them to a special degree of effort and interest is likely to prove highly profitable to all concerned.

THE RELATIONSHIP BETWEEN INDIVIDUAL EFFORT AND PROFITS MORE CLEARLY SEEN IN MANAGERIAL POSITIONS

2. Those in the higher salaried positions, generally speaking, can more readily see the relationship between their individual efforts and the profits account. If profit sharing is to prove a really effective incentive it is necessary not only that the activity of participants shall vitally affect the profits account, but also that they know that it does, and how it does. But the efforts of even a fairly large group of wage earners can so easily be made worthless by a blunder of the managers, and

the slackness of wage earners can so easily be offset by brilliant management, that the direct and immediate influence of wage earners upon profits is sometimes wholly or nearly indistinguishable.

Not only is the connection between the individual's efforts and general profits less, in the lower paid groups, but ordinarily the power to perceive the effect upon profits which actually exists, is also less. It might be difficult for the machine operative in a large factory to see any definite influence of his increased speed upon total profits, and therefore upon the size of his own profit sharing payment. The manual laborer might not readily see how the slight saving of raw material he could accomplish by greater care would affect the year's total profits. It would perhaps be too much to expect the elevator man to recognize that his greater care and interest in his job increases to some degree the year's profits of the concern. But it is easy for the sales manager and his assistants to see that by successfully conducting a new sales campaign, or by finding a new market, the profits may be materially increased.

It is not impossible to educate employees in the less important positions to apprehend the relationship between their efforts and profits, if the group is sufficiently small. But in a large concern, where results of the individual's efforts are so small, and are so easily lost in the whole, such education of the rank and file is most difficult. Profit sharing for efficiency does not reach them as it does those higher placed.

EMPLOYEES IN MANAGERIAL POSITIONS HAVE BETTER UNDERSTANDING OF BUSINESS UNCERTAINTIES

3. Employees in the more responsible positions, from the insight given by their regular duties, ordinarily possess a better understanding of business vicissitudes and fluctuations. They are more likely to understand, in relation to profits, the operation of factors other than their own efforts, particularly those elements of chance over which the employees or the management have no control.

This is of importance in considering the results of lean years upon the outcome of a profit sharing plan. If, in such years, the profits available for distribution are small or nonexistent, because of a slump in prices of commodities sold, a rise in the price of raw materials, unusual expenses, a falling off in demand, abnormally keen competition, or other similar influences, those who occupy the principal positions are acquainted with the conditions producing the poor results. The smallness of the earnings is not so likely to destroy their confidence in the profit sharing plan; "hard luck" may even give them a stronger sense of partnership. But the employees in less important positions, less familiar with the fluctuations of the market and the uncertainties of business, and working as faithfully this year as last, find the diminution of their profit share hard to understand. They are more apt to be suspicious of the management and to grow indifferent to the promises of profit sharing. Several firms formerly

employing profit sharing among the rank and file report that they have abandoned it because they found that after a poor year it did not produce results.

THE RESULTS OF INDIVIDUAL EFFORT IN THE MANAGERIAL GROUP ARE DIFFICULT TO MEASURE

4. It is generally difficult, and often impossible, to measure the results accomplished by those in the more responsible positions, and, therefore, to pay them on any system of measurable results. This renders profit sharing especially applicable to them. Much of the work performed by the wage earners consists in the repetition of certain motions, or the production of a measurable output, and it is possible to know and to recompense with certainty the results of each man's labor. Even when the payment of wage earners upon a basis of individual output appears impracticable or inexpedient, and when they are paid flat time wages, there is usually a generally accepted standard of efficiency, and the wage earner is expected at least to approximate this standard. But there are no such definite standards for the salaried employees. There is no unit of measurement or compensation which can be applied to the diverse duties of the managerial group, which involve the performance of numerous functions, the constant meeting of new problems and changing conditions, and the exercise of business judgment and discretion. Even when the division of labor has been carried far among the managing employees, when there develop such specialties as

employment, purchasing, advertising, and accounting, it still as a rule remains impracticable to base remuneration upon individual results.

EVILS OF THE FLAT SALARY FOR MANAGERIAL EMPLOYEES

Most managerial employees are therefore paid a flat salary. With a flat salary, the incentives that spur men on to increased efficiency beyond that necessary to hold the job are love of their work, the desire for achievement, emulation and the love of praise, ambition for promotion, or the sheer sense of duty. The instinct of workmanship is not always to be relied upon, emulation becomes weak except under skillful and tactful management, ambition often languishes after a certain scale of income has been reached or when promotion is slow, and the sense of duty is dulled by routine. The temptation among all too many men in the salaried class is to "rest on their oars," all the more since there usually is not, as there is for most wage earners, any generally accepted standard of efficiency for a "fair day's work." Since, in any given salaried or discretionary group, the range in the accomplishments of "satisfactory" employees is wide, many in the salaried group fall far short of their best. Profit sharing, in offering a direct inducement over and above the flat salary, is therefore likely to prove an especially effective stimulus among the employees of larger responsibility.

RELATION OF PROFIT SHARING TO THE SIZE OF THE PARTICIPATING GROUP

In thus emphasizing the value of profit sharing for the discretionary employees, it should be made clear that increase in efficiency by this method is not confined to this group. Under certain conditions profit sharing may induce efficiency among the wage earners. But, as already pointed out, profit sharing when applied to wage earners is much more effective as a stimulus for comparatively small groups of participants. The following considerations serve to make clear the relation of the number in the participating group to the effectiveness of profit sharing.

THE LARGER THE NUMBER THE GREATER IS THE DIFFICULTY OF EDUCATING PARTICIPANTS

1. The greater the number of participants the less is the opportunity of the management to educate each in the principles and practice of profit sharing. No concern should inaugurate profit sharing with the expectation that it will prove self-operative. The successful introduction of profit sharing, especially among wage earners, involves a campaign of education which must be almost continuous in the early years of the plan, and which can never be definitely dropped. Participants must be taught to see the relation between their efforts and profits; confidence in the management's intentions must be established; interest in and loyalty to the profit sharing feature must be developed. All this requires time, constant effort, and patience upon the part of

the active management. Such educational work may be done by pamphlets, bulletins, lectures, and committee and group meetings for the discussion of matters affecting the profits account. But the most powerful factor in the process of education will of necessity be the personality of the active management.

Complete confidence in the good will of the management, and interest in the profit sharing plan, can be developed only by considerable personal contact between the active management and the participants. The larger the group of participants, the more difficult it is to establish this kind of relationship. When the group is large the management must do its work at greater distance and by less direct methods. The task must be intrusted to subordinates. But a feeling of intimacy cannot be conveyed by intermediaries; they may even become a bar to mutual understanding. It is a notable fact that all the plants which have operated genuine profit sharing among the wage earners for any considerable period have been comparatively small concerns in which one or a few managers conducted a long and effective campaign of education, largely by personal contact with the participants. The difficulty or impossibility of doing this in a concern employing a large number of employees is obvious.

THE LARGER THE GROUP THE LESS IS THE RELATIVE EFFECT OF EACH UPON PROFITS

2. The larger the number of participants, other things being equal, the less is the relative effect of

anyone participant upon total profits and the less, consequently, is the stimulating power of profit sharing. In a comparatively small group of employees, whether of large or minor responsibility, each one of the participants may exercise a relatively large influence upon profits, and profit sharing may give each participant a strong incentive to his best efforts. Mechanics and skilled workmen, interviewed in profit sharing concerns of small size, expressed the conviction that profits depended largely upon their efforts. It is difficult, however, to believe that the mental attitude of these small groups of one to two hundred participants could exist to the same degree in a group of as many thousand.

THE LARGER THE GROUP, THE LESS IS THE INFLUENCE OF MEMBERS UPON EACH OTHER

3. Another reason for the difficulty of making wage earners in a large group feel the importance of their individual efforts to a profit sharing plan, is their realization that any increased efficiency of their own may be offset by the indolence of others. In a small establishment where most of the employees are personally known to each other, a loafer who lessens profits renders himself conspicuous, and is likely to arouse the resentment of his fellows. But the typical employee in a large group, members of which are employed in different departments, is apt to doubt the utility of special exertion. He cannot know what is going on in other departments of the plant, what degree of diligence and application is

being shown by those engaged therein, or what degree of interest they are manifesting in the profit sharing plan. He has more than a lurking suspicion that others are "taking it easy," and profit sharing has no antidote for this paralyzing influence.

The larger the number, therefore, the less is the helpful watchfulness of participants upon each other. In one of the small manufacturing concerns visited it was maintained that new employees were immediately placed under scrutiny, their work being "sized up" by their companions. If it was felt that the newcomer was indolent, careless, or inefficient, he was soon made to feel strongly the disapproval of the others. Then, if he failed to change his ways, he was reported to those in charge. All this was done, not under instructions, but voluntarily by the workmen, because they felt that the loafer was a menace to profits. In one profit sharing concern, a retail establishment, it is claimed that this watchfulness and pressure of employees upon each other is one of the most valuable results obtained. The forty odd salesmen on the floor are alert to prevent inefficiency; they discuss the conduct of their own and other departments; they also make the "loafer" feel their disapproval, or even, as a last resort, report him to the management. These reports are used as a basis for "educating" the indolent one in profit sharing, and pointing out to him the relation between his efforts and profits. The management states that profit sharing is the greatest "sifting process" it has ever had. The men do not regard this attitude of vigilance as "squealing" or "carrying

tales," but rather as the act of a partner in protecting his own interest. It is significant to note that in this establishment the amount of profits paid out, in proportion to wages, was comparatively large.

Whether profit sharing would generally develop the attitude of watchfulness to this extent, and whether it is desirable that it should, may be open to question. But it is certain that profit sharing cannot function well unless the participant who is known to be indolent is in some manner made to feel the disapproval of his fellows, whose profits he is impairing. As the group, however, increases in size, the employee, realizing that the results of his own efforts become relatively less important to the total profits account, is less stimulated by profit sharing. Being less moved by the future distribution, he is naturally less interested in his neighbors' efforts. The "team spirit," which rests largely upon the moral influence and enthusiasm of fellow profit sharers, becomes seriously weakened.

THE ABOVE CONCLUSIONS ARE VERIFIED BY THE HISTORY OF PROFIT SHARING

The main conclusion developed in this chapter is not simply theoretical, but has been verified by the history of profit sharing. Analysis of many abandoned profit sharing plans indicates that nearly all of them included the wage earners exclusively, and that many of them attempted to include large numbers of participants. On the other hand, although profit sharing among the salaried employees has been used by a number of concerns, none, so

far as can be learned, have abandoned it as unprofitable. Investigation shows that some firms which introduced profit sharing among all grades of employees, while abandoning it as unsuccessful among the rank and file, have retained it as highly satisfactory among those in the discretionary positions. Other firms which share profits with all employees report that it proves much more of a stimulus to the salaried group.

Furthermore, where profit sharing has demonstrated itself a successful stimulus among the lower paid employees, it has been among comparatively small groups of workers. The Ballard and Ballard Company, for example, has approximately two hundred and fifty regular employees. The A. W. Burritt Company employs regularly about one hundred and twenty-five wage earners eligible to share in profits. The Stambaugh Thompson Company has a payroll of about one hundred and ten. The Baker Manufacturing Company of Evansville, Wisconsin, employs about one hundred and twenty-five men; Samuel Cabot, Inc., of Boston, about one hundred; the C. C. Meaker Company of Auburn, New York, about one hundred and fifty; R. A. Bartley, wholesale grocer, of Toledo, Ohio, and the Hotel Vendome of Minneapolis, both less than one hundred; the Minneapolis Bedding Company, about two hundred; and the New Haven Gas Light Company, about three hundred. Profit sharing among the wage earners, in one or another form, is successfully practiced in all these typical concerns, and they are all relatively small.

It is not denied that for groups of large size profit sharing may produce desirable social results, such as the promotion of thrift and savings, or an elevation in the standard of living. The use of profit sharing for such humanitarian purposes is discussed in Chapter XII. It is further recognized that even when profits are shared among large numbers certain desirable business purposes may be served. There are some profit sharing plans in operation which include large numbers of wage earners. The Boston Consolidated Gas Company's plan includes about six hundred; the Spencer Wire Company of Worcester, Massachusetts, about seven hundred and fifty; the Farr Alpaca Company of Holyoke, Massachusetts, about twenty-three hundred; the Wm. Filene's Sons Company of Boston about twenty-five hundred; and the Eastman Kodak Company about eight thousand. It is granted that profit sharing, when applied to such large numbers, may promote cordial industrial relations, or long service, but it has not been found an effective inducement to personal efficiency. In answer to the direct question, the management in many of the concerns using profit sharing among large numbers frankly recognized the truth of this position.

SUMMARY

The effectiveness of profit sharing as an instrument for profit making is greatest among high groups and small groups. It is a particularly appropriate method of compensating those occupying managerial or discretionary positions, for the greater

the responsibility the larger is the opportunity to influence profits. This is true progressively from the lowest to the highest grades, in the hierarchy of a business organization. While profit sharing may also, under certain circumstances, be advantageously introduced among the rank and file, it is not believed that in groups of large size it will normally operate as a strong incentive to personal efficiency, increased effort, care, economies, or coöperation.

CHAPTER XII

PROFIT SHARING FOR HUMANITARIAN PURPOSES

HUMANITARIAN MOTIVES ARE FREQUENTLY PRESENT

THROUGHOUT the preceding discussion profit sharing has been regarded largely as a method of efficient business management. The inquiry has concerned itself almost exclusively with the effects of this method, direct or indirect, upon the earnings of a business concern. But it cannot be ignored that social or humanitarian purposes also animate, to a greater or less extent, those actively interested in introducing the plans. The desire to improve the condition of the workers and to secure for them a larger return has played a part, especially in the plans which include the wage earning groups. But while this motive is frequently present, it is not usually controlling. In the Labor Bureau's investigation of all the profit sharing plans known to be in operation in the United States in 1916, of all the employers interviewed only three stated that their primary intention was to furnish "an equitable distribution of the profits of the undertaking, as a matter of justice, irrespective altogether of hopes for increased efficiency." One of these gave as a reason for his plan that "he was the owner of more

property than he needed, that as his property was created in the business through the efforts of his employees, he now wanted them to have the benefit of it."[1]

SOCIAL PURPOSES PREDOMINATE IN NELSON PLAN

The plan of the N. O. Nelson Company seems clearly to belong to the small class in which the social interest dominates. It rests upon the belief of the founder, Mr. N. O. Nelson, in the intrinsic justice of the profit sharing principle. No effort is made to justify it purely as a business arrangement. After a six per cent dividend is paid upon the outstanding stock, the entire remainder of the year's profit is invested in the business and in the form of additional six per cent stock is distributed among the employees and customers. Every participating employee receives his regular salary or wage, a six per cent cash dividend upon the stock which he already owns, and the year's dividend in the form of additional six per cent stock. Profit sharing with employees, based on their year's earnings, has been in operation since 1886. In 1893 the customers, who are mainly retail dealers in plumbing fixtures, were also included as profit sharers. The annual payment to them of a dividend on the profits arising from their orders has built up a steady constituency. All the stock of the company is of one class, so that the stock owned by the employees and customers is of the same character as that owned by Mr. Nelson.

[1] See "Profit Sharing in the United States" Bulletin of the United States Bureau of Labor Statistics, 1917, Whole Number 208, page 170.

The Nelson Company has expanded rapidly under this plan. At the outset the capital stock was one hundred thousand dollars, all of which was owned by Mr. Nelson. The employees numbered two hundred. The capital and surplus are now about two million dollars, and the employees number one thousand. The employees own one-third of the capital stock, and both the proportion and the amount owned by them is rapidly increasing. The business is really a coöperative enterprise, resting upon the theory that profit sharing and coöperation constitute the proper basis upon which to conduct any business enterprise.

THE FILENE PLAN LARGELY HUMANITARIAN

Other plans rest in whole or in part upon similar beliefs. The Wm. Filene's Sons Company justifies its profit sharing not primarily upon business grounds, but upon the theory that capital, like labor, is entitled only to its wage; capital should not be the residual claimant, entitled to all that remains after labor has been paid at the market rate. The proper return upon capital is regarded as the rate at which it can be freely secured for investment in the business, and after labor and capital have both received the going market rate of compensation, the remaining profit should be divided among all those actively engaged in the business. The plan is, therefore, that after a seven per cent return has been earned upon the capital stock, fifty per cent of the remaining net earnings shall go to the six individuals who make up the active management, and the other

fifty per cent to all other employees, in proportion to their wages.

THE ASSUMPTION UPON WHICH SUCH PLANS REST

These experiments may be regarded as an evidence of the growing belief that stockholders or investors who simply supply a portion of the capital are not entitled to all the profits upon such capital, but only to the market rate of interest and a reasonable return for the risks involved; excess earnings beyond this or a portion thereof, it is held, should go as of right to those who contribute the labor and effort. The question as to what "social justice" requires is a perplexing one. Why stop with the employees or customers? Has not the community at large contributed something? But this theory cannot here be discussed, still less may any prophecy be ventured as to the eventual attitude of society regarding it. Suffice it to point out that a few important experiments in profit sharing rest upon the assumption that the customary method of distributing earnings between labor and capital is not altogether justifiable.

SOME PLANS REST ON DESIRE TO IMPROVE EMPLOYEE'S STANDARDS OF LIFE

There are other profit sharing or pseudo profit sharing plans which rest upon the employer's desire to elevate the standard of life and to improve the living conditions of employees, rather than upon any particular economic or social theory. The

outstanding example of such a purpose is the plan of the Ford Motor Company of Detroit.

THE FORD PLAN

The Ford plan is not profit sharing in the strict sense. But perhaps the term "profit sharing" can be used without great impropriety, because, when the plan was introduced, the estimated amount of the special bonus payments constituted a certain per cent (fifty) of the profits of the preceding year. Employees are divided into classes — A, B, C, etc., according to the character of their work. Thirty-four cents per hour, the regular wage for unskilled labor, is the rate obtained by about seventy-five per cent of the employees. The scale of wages for the various classes of labor is shown in the table below. During the first six months of employment the workers receive only the regular wage to which their service entitles them. After six months of service, those employees who are eligible to become profit sharers are as follows:

1. "Married men living with and taking good care of their families.
2. "All single men, twenty-two years of age and over, of proven thrifty habits.
3. "All single men under twenty-two years of age who are the sole support of some next of kin or blood relation. Girls are eligible as profit sharers only when the sole support of some next of kin or blood relation."

THE INVESTIGATION OF THE EMPLOYEE

Before an employee can become a profit sharer, a detailed investigation is made, often repeated investigations, of his family relations, his character, his personal habits, his environment and living conditions. These examinations are conducted by the staff of social workers employed for this purpose. If in any respect the employee's manner of living falls short of the company's standard, it may be pointed out to him, and he may be urged to move into more wholesome quarters, to change his ways, or to break off bad habits, as a condition of becoming eligible to share in profits.

THE BASIS OF PARTICIPATION

If an employee's personal character, habits, and manner of life are regarded as sufficiently satisfactory, he becomes entitled to participate in the profits. Profits and wages are in inverse ratio. The smaller the wage, the greater the profit to which the employee is entitled. This arrangement seems clearly to indicate the humanitarian purposes of the plan. The lowest paid employees, receiving thirty-four cents an hour, get the highest profits, twenty-eight and a half cents an hour, making a total income of sixty-two and a half cents an hour, or five dollars per day. The 1916 scale of wages and profits obtained by the various classes of workers was as follows:

FORD MOTOR COMPANY
WAGE RATE AND PROFIT SHARING RATE
1916

CLASSIFICATION OF EMPLOYEES	WAGE RATE PER HOUR	PROFIT SHARING RATE PER HOUR	TOTAL INCOME PER HOUR	TOTAL INCOME PER DAY
Men.	.86	.07¾	.93¾	7.50
	.80	.07½	.87½	7.00
	.73	.11⅜	.84⅜	6.75
	.68	.13¼	.81¼	6.50
	.61	.17⅛	.78⅛	6.25
	.54	.21	.75	6.00
	.48	.23⅞	.71⅞	5.75
	.43	.25¾	.68¾	5.50
	.38	.25⅝	.65⅝	5.25
	.34	.28½	.62½	5.00
Girls (after six months service)	.34			
Girls (when eligible to share in profits)	.34	.28½	.62½	5.00
Girls, starting	.30			
Boys, starting	.26			

THE MAINTENANCE OF SUPERVISION

After the employee becomes a profit sharer frequent investigations into his living and family conditions and his personal habits are made, particularly if it is thought that the profit sharer is not making a wise use of his profits. Employees are encouraged by the investigators to practice thrift, to save, and to invest. Great emphasis is placed upon the evils of intemperance, upon the importance of carrying life insurance, of opening bank accounts, and of acquiring homes on payment. A real estate and a legal bureau are maintained, giving advice and guidance free of charge to employees, particularly in purchasing homes. After having become a profit sharer, an employee may be

discharged, or he may be laid off as a profit sharer, although retained as an employee. The employee's use of profits must be such as commends itself to the investigational staff, or he faces the possibility of having his share in profits cut off. In short, eligibility to share in profits rests not upon any special efficiency in the factory, but upon efficiency as men, husbands, fathers, and citizens.

SOCIAL RESULTS OF THE FORD PLAN

From Mr. Ford's social point of view, there can be no question as to the beneficial results of his plan. Prior to the adoption of this plan, a social survey of the company's employees was made (then numbering about sixteen thousand). Five months after the profit sharing plan was introduced, the second survey was made including only the profit sharers (then numbering about nine thousand five hundred). Some of the results of these two surveys are shown by the following statement made by the company.

1. "Of 16,000 men at the start, 5872 had bank accounts averaging $62.21 each. Of 9251 men at the second survey, 7540 had bank accounts totaling $1,603,758, an average of $212.70 each for the 7540 having accounts, or an average of $173.36 for the whole 9251.

2. "At the first survey, 2572 men carried life insurance, averaging $960.99 each. At the second, 3149 carried life insurance, averaging $1019 each.

3. "The value of the homes owned increased 87 per cent. The value of the homes bought on con-

tract increased 95 per cent and the total amount paid on such contracts increased 118 per cent. The value of the lots owned increased 86 per cent. The value of the lots bought on contract increased 135 per cent and the amount paid on such contracts increased 145 per cent.

4. "Amount of rent paid monthly increased 42 per cent, while monthly board payments increased 15 per cent and weekly board payments increased 11 per cent, figures eloquent on social conditions."

BUSINESS RESULTS

The Ford Company also points with gratification to the desirable business results of its profit sharing enterprise. Of these the most important are the increased output and the decreased labor turn-over. Nevertheless, there can be little doubt that the introduction of the plan was due primarily to the humanitarian desire to share the company's prosperity with its employees, and to discipline them to a higher and more wholesome standard of living. This at least seems to be the intention, for a continuous campaign of education in right living is conducted by the company's staff of social workers.

SOCIAL PURPOSES BEST PROMOTED BY ADVANCING WAGES

Whether it is more desirable that wage earners should reach a higher standard of life through their own efforts and achievements, even though the process be a much slower one, than that they should have it imposed upon them by their employer as a

necessary condition for obtaining higher wages, may be open to question. But certainly it is clear that if an employer's dominating purpose be to increase the income of his employees, to enable them to elevate their standard of life, and to share with them the prosperity of the business, it is to be recommended that in so far as practicable he accomplish this purpose by increasing the regular wage schedule rather than by introducing profit sharing. This aim can be reached much more directly, simply and surely by putting the additional amounts in the regular pay envelope. This is substantially what the Ford Company has done. By such action the employer makes possible the regular maintenance of a higher standard of living throughout the year, and he removes all element of uncertainty as to the increased income. By advancing his own wage scale he also accelerates the tendency to an upward movement in the prevailing wage scale in the community. This helps not only his own workmen but others as well. But if the enterprise is one in which earnings are uncertain, or subject to marked fluctuations, the employer would naturally be unwilling to follow this method and to increase thereby his fixed charges.

PLANS TO PROTECT EMPLOYEES AGAINST CONTINGENCIES

Other profit sharing plans which seem to rest largely upon humanitarian grounds aim primarily to protect employees or their families against those contingencies, such as sickness, accident, old age,

and death, against which workmen ordinarily do not or cannot protect themselves. In these plans the company sets aside regularly a portion of its profits for the maintenance of insurance or benefit funds.

EXAMPLES OF PLANS OPERATING THROUGH BENEFIT FUNDS

The chief examples of such plans are found in France. Messrs. Deberny and Company pay into a "workshop fund" the amount of profits allotted. This contribution of the company is supplemented by a two and one-half per cent deduction from wages. The fund is used to provide pensions, annuities and other benefits to the employees. The Suez Canal Company sets aside two per cent of its net profits to provide retirement and old age pensions for its staff. These pensions are normally three-fifths of the average salary for the last three years of employment. Under the plan of Brugniot, Cros et Cie of Paris (otherwise known as the Maison Leclaire, already described in Chapter IX) thirty-five per cent of the profits available for distribution are paid to the Employees' Mutual Aid Society. This fund is used for retirement pensions for employees after twenty years of service, for pensions for widows of employees and their orphans, for pensions for disabled employees, and for other benefits. The Imprimerie Chaix of Paris, engaged in printing, sets aside fifteen per cent of the profits for the purpose of providing pensions and life annuities for its employees. Sears, Roebuck and

Company, of Chicago, indicates that one of the purposes of its plan is to provide retirement allowances. In the announcement of its plan, it states: "In order that employees may share in the profits of the business, and to encourage the habit of saving, the company has decided to contribute annually a sum equal to five per cent of its net earnings to an Employees' Savings and Profit Sharing Fund. It is intended that this plan will furnish to those who remain in the employ of the company until they reach the age when they retire from active service, a sum sufficient to provide for them thereafter, and that even those who achieve a long service period, but who may not remain with the company all of their business life, will have accumulated a substantial sum. This Savings and Profit Sharing Fund will enable the employee to secure an income for himself after the close of his active business career or in case of death for his family." Samuel Cabot, Inc., of Boston, pays one-half of the profits to which the employee is entitled into a special fund, which, with interest, is paid as a death benefit to the employee's heirs. Many other firms have plans under which pensions or insurance benefits are provided for employees. But ordinarily these are not profit sharing plans, since the benefits are fixed charges. In the above described profit sharing plans the benefits are paid out of funds which represent the accumulation of a definite proportion of profits.

FREQUENTLY HUMANITARIAN AND BUSINESS PURPOSES ARE BOTH PRESENT

While profit sharing is regarded by most concerns from a business point of view, as a matter of fact the desire to improve the economic status of employees probably has been present to an even greater extent than profit sharing employers have themselves realized. Many a business man takes pleasure in doing something which he believes will promote desirable social results, if he feels that he can justify the act to himself, or to his board of directors, as a "business proposition." Many employers are desirous of expressing their humanitarian ideals towards those employed by them, if they can do so in such a way as to protect their own ideals of business efficiency. It was noticeable in interviews with some of those employers who insisted most upon the business purpose underlying their plans that they took great satisfaction in pointing to the increased incomes, the development of thrift, the accumulation of property, and the elevation of the standard of life which had been made possible among their employees. On the other hand in those few cases in which profit sharing is introduced primarily not for business but for social purposes, there is also generally a belief or at least a hope that the plan in some general way will increase the efficiency of the business. Clearly, profit sharing for business reasons and for humanitarian purposes is not inconsistent. Even when introduced primarily to increase profits the details of a plan may be so adjusted as to encourage desirable social results.

SUMMARY

The profit sharing plans which rest upon a humanitarian basis, or theories of social justice, are the exceptions. While the beneficial social results of profit sharing may be welcomed, the plan will not gain widespread acceptance unless in the long run it demonstrably increases the prosperity and security of a business enterprise, both for employers and employees. A corporation making abnormally large profits, or an unusually generously-minded employer, may introduce profit sharing simply in order to share prosperity with the workers. But ordinarily the plan must rest upon a sound business basis. It must pay its way or fail.

CHAPTER XIII

METHODS OF PROVIDING FOR THE PROPORTION OR AMOUNT OF PROFITS TO BE DISTRIBUTED

THE PROBLEM

ONE of the first questions to be considered in the inauguration of profit sharing is the method by which the proportion or amount of profits to be distributed shall be determined. What should govern the decision as to how large a proportion of profits to pay out and upon what basis should the amount be calculated?

A FIXED PERCENTAGE OF NET EARNINGS TO BE DIVIDED

One method is to provide for the division of a fixed percentage of net earnings, with no deduction for interest on investment or dividend charges. The return to capital is included in the share of profits which remains to the company after making the distribution to employees. This method is used by a number of concerns. The American Manufacturing Concern of Falconer, New York, pays ten per cent of net earnings to its profit sharers; Bing and Bing, contractors, New York, pay thirty-five per cent; the General Ice Company of Detroit pays five per cent; the United Electric and Water Company of Hartford pays five per cent; the Record Auto Supply Company of Washington pays ten per

cent; and the J. B. Blood Company of Lynn, Massachusetts, pays twenty-five per cent.

ADVANTAGES AND DISADVANTAGES

This method has certain advantages. Under it the employees are ordinarily sure to get something. It raises no question as to how the company disposes of its share of earnings. On the other hand, the company must be willing to face the fact that after payments to the employees it might obtain less than a fair return on its capital.

DISTRIBUTION OF PROFITS AFTER DEDUCTION OF INTEREST

Probably the most usual method is to allow for interest on investment and other necessary charges before making a distribution of a certain proportion of profits. The division of profits, when this plan is adopted, may be according to the ratio that the total wages bill bears to the total investment, as with the A. W. Burritt Company, the Minneapolis Bedding Company, and certain English firms; or it may be equally between the company and the employees, as with the Stambaugh Thompson Company. Whatever the basis of division, no distribution under this plan is made until interest on investment at a stipulated rate is deducted.

ADVANTAGES AND DISADVANTAGES

The disadvantage of this method is that the employees may not obtain anything. But the corporation has at least prospects of obtaining a fair

return on its investment. This plan is well adapted to general and unit profit sharing but not to individual profit sharing. In general profit sharing, interest would be calculated upon the total investment or inventory value, and in unit sharing, upon the investment carried in the particular branch or department, but it would be obviously impossible to estimate the portion of the company's total investment which depends on the individual activity of, say, its traveling salesmen.

In general or unit profit sharing, where it is possible to estimate the capital in use, there is no question as to the justice of first deducting an interest charge, if it appears expedient to do so. Interest at a reasonable rate, varying with the risk involved, and the locality, may be regarded as the wage or price of capital, in the same sense that salary or wages represents the return to labor. For profit sharing purposes, both may properly be treated as fixed charges, and no profits become available for distribution until after both these charges are met. If one of the objects sought in establishing profit sharing is to render the capital invested secure as a permanent source of income, this method is clearly suitable. In businesses where the capital invested in proportion to the volume of business done is comparatively small, such a provision is less important.

SOUND ACCOUNTING METHODS NECESSARY

It is perhaps needless to say that the deduction of interest before making a distribution presupposes sound accounting methods, by which the investment

or inventory value, and therefore the proper deductions for interest, may be correctly ascertained. Indeed, proper accounting methods are equally essential to any profit sharing plan.

DISTRIBUTION OF PROFITS AFTER THE DEDUCTION OF DIVIDENDS

A third method is to provide for distribution of profits in some definite ratio, after first deducting dividends upon stock and other charges. That is, instead of deducting interest on investment or inventory value, the company first deducts dividends upon its stock at some fixed rate. After the deduction of dividends the remaining profits may be divided among participants in any predetermined ratio or proportion. The Baker Manufacturing Company of Evansville, Wisconsin, after paying dividends on stock, distributes the remaining profits between the company and the employees in the proportion which the total wages for the year bear to the total dividends. The Ward Baking Company of New York distributes six per cent of the profits after paying dividends at a stipulated rate. Or after providing for the dividends, all the remaining profits may be paid to the participants, as is done by the Dennison Manufacturing Company and by the J. W. Butler Paper Company of Chicago. It is evident that under this plan the amounts necessary to provide the stipulated dividend rate might be greater or less than the amount necessary to provide the same rate of return upon the capital actually invested.

PROFIT SHARING PAYMENTS TO VARY WITH DIVIDEND RATE ON STOCK

Again, the amount or proportion of profits to be distributed may not be dependent upon a prior deduction for interest or dividends, but may be made to vary directly with the dividend rate on the stock. The most usual method of applying this principle is to pay a dividend to employees upon their wages or salary, at the same rate, high or low, at which dividends are paid upon stock. This is the arrangement of three concerns in Massachusetts: the Boston Consolidated Gas Company, the Farr Alpaca Company of Holyoke, and the Spencer Wire Company of Worcester. The wage dividend rate may also be fixed, not as equal to the dividend rate on stock, but in some established relation thereto. Hay and Company, Ltd., of Sheffield, England, pays a wage dividend at the rate of one-fourth the dividend on ordinary stock. The Edison Electric Illuminating Company of Brooklyn pays employees of two years' standing a wage dividend at one-half the dividend rate; this advances regularly until those of five years' standing obtain a dividend upon wages at a rate equal to the dividend rate on stock.

ADVANTAGES AND DISADVANTAGES

A dividend on wages at the same rate as dividends on capital stock is an arrangement which on the surface appears to be essentially fair. But further examination discloses that it may fail to operate as a stimulus, and that it is liable to abuse. Under

this plan the actual rate of earnings need not be divulged, for the dividend rate does not necessarily correspond to the actual rate of profit. But the realization on the part of employees that the dividends declared on stock, and therefore the dividends on wages or salaries, lie wholly in the discretion of the directors, and may be widely divergent from actual profits, lessens the power of this plan as a stimulus.

THE DIVIDEND RATE IS OF QUESTIONABLE VALUE, AS THE BASIS OF CASH PAYMENTS TO PARTICIPANTS

Furthermore, without changing the provisions of the profit sharing arrangement in the slightest, and without any decrease in the actual rate of profits, but by issuing additional stock and thereby lowering the dividend rate, the profit sharers may easily be compelled to accept a reduced return. Similar manipulation would also be possible in those plans under which profits are not distributed until after the payment of a specified dividend rate on capital stock. This danger is eliminated under the Dennison plan, by the provision that there shall be no increase in the first preferred stock, upon which the dividend rate is established, without the written consent of the holders of three-fourths of the then outstanding stock of each class, including the special "industrial partnership" stock which is held by the profit sharers. This protection, however, applies when employees receive their profits in shares; it would be difficult to devise a safeguard when they are paid in cash.

BETTER TO BASE PAYMENTS UPON ACTUAL EARNINGS THAN UPON DIVIDENDS

Indeed, cash distribution of wage dividends, dependent on prior deductions of dividends on capital stock, or varying directly with such dividends, more nearly resembles a bonus system, under which the bonus is not announced in advance, but is determined at the end of the period, at the discretion of the company. Where the capital dividend rate is regularly maintained, there will be less danger of abuse in this plan, but if the amount of the payment becomes definitely fixed and known in advance, the plan loses much of its value as a stimulus to economy, effort, or efficiency. If profits are to be paid in cash, it will ordinarily prove more effective and satisfactory to base the payments upon profits actually earned, rather than to make them depend upon the rate of dividends declared.

EXCEPTION IN THE CASE OF PUBLIC UTILITIES

The objection of possible abuse of plans in which the payments to employees depend upon dividends does not apply with the same force to a public utility, the issuance of whose stock is subject to government supervision, or whose dividend rate on stock depends on the price charged for the service. Both of these conditions obtain with the Boston Consolidated Gas Company, which operates under the "sliding scale."

THE AMOUNT DEPENDS UPON THE PURPOSE AND OTHER FACTORS

The decision as to what amount or proportion of profits shall be distributed depends somewhat upon the intention of the profit sharing plan. If the purpose, for example, is primarily to provide for the security of invested capital or capital stock as a permanent source of income, participants may be given all the profits above a specified rate of return, as is done under the Dennison and Butler plans. But if the purpose is to secure a large increase in immediate profits, some other form of profit sharing might be advisable. The amount of profits to be distributed must also depend upon the number of participants, their rank and grade, and their wage or salary level. Clearly, other things being equal, the larger the number of participants, the larger must be the amount of profits to be made available for distribution. And under any arrangement, to repeat a principle earlier established, the payments available for participants should constitute a substantial addition to their regular wages or salaries.

THE RATIO OF PROFIT SHARING PAYMENTS TO WAGES

It is of interest in this connection to note the percentages upon wages which have been made available for employees in some of the oldest and most successful profit sharing establishments. The A. W. Burritt Company's dividend on wages under its "profit and loss sharing" plan has run as low as

one-half of one per cent and as high as eighteen per cent, but has averaged six and three-quarters per cent. The N. O. Nelson Company's plan has yielded wage dividends of from ten to thirty per cent, averaging about eighteen. Under the plan of the Baker Manufacturing Company the percentage of wages paid, from 1899 to 1915, has never been less than twenty-eight, and frequently as high as one hundred per cent. Samuel Cabot, Inc., has paid from eight to twenty per cent, with an average of approximately ten per cent. The Boston Consolidated Gas Company has paid seven, eight, eight and one-half, and nine per cent.

The statistics published by the British Board of Trade in its report on "Profit Sharing and Labor Co-Partnership in the United Kingdom," previously referred to, cover the years 1901 to 1912. These statistics indicate a wide variation in the ratio of profit sharing payments to wages among English firms. In each year of this period nothing at all was paid by some firms, while in some years the payments made by certain concerns exceeded twenty per cent. The average annual ratio of profit sharing payments to wages, for all the firms reporting, varies only from 4.5 in 1908 to 7.1 in 1906. The average ratio for the entire period is reported as 5.5. No figures of a similar nature and for so many years are available for the United States. But the United States Bureau of Labor Statistics has investigated for one representative distribution period the payments made by thirty-four of the most important establishments which share profits with

wage earners. It found that in almost one-third of the plants the benefits accruing to employees were less than six per cent upon earnings. The dividends on wages varied from six to ten per cent in slightly over one-third of the establishments. In the remaining third the dividends were ten per cent or more. The Bureau also investigated the cost of these plans to the employers, and found it to be less than six per cent of the annual payroll in more than one-half the plants. In seven of the plants (20.6 per cent) the expense was from six to eight per cent of the payroll. In five cases the additional expense amounted to twenty per cent or more.[1]

SUMMARY

All the five methods above described — the distribution of profits prior to the deduction of interest upon investment, or after such deduction, or prior to the deduction of dividends on stock, or after such deduction, or varying with the dividend rate — have certain advantages and disadvantages. The method of providing for the amount or proportion of profits to be distributed must depend upon the purpose of the plan and upon other factors. Generally speaking, if the purpose of the plan is to increase personal efficiency, it will prove better to base it upon actual earnings than upon dividends. Except where the purpose is to protect the return upon outstanding stock, the division of earnings, in some predetermined ratio, *after* the deduction of interest upon investment, has the most to commend it.

[1] "Profit Sharing in the United States" Bulletin of the United States Bureau of Labor Statistics — Whole No. 208, pp. 19 and 20.

CHAPTER XIV

THE FORM OF PROFIT DISTRIBUTION

THE POSSIBLE METHODS

PROFITS may be distributed in the form of cash, stock, a combination of cash and stock, or payments to a provident or insurance fund. Of these methods, the two first named are in common use, the other two are less usual.

ADVANTAGES OF CASH DISTRIBUTION

There are certain advantages obtainable by the distribution of profits in the form of cash. While it is not so likely to promote savings as the other methods, it permits a desirable elevation of the standard of living, particularly among the lower paid groups of workers. It is also a more direct and therefore more effective stimulus to efficiency among wage earners than a distribution of stock. Few wage earners understand investments or securities. In addition to these positive advantages cash plans are less open to the criticism frequently advanced against stock plans, — that they are meant to tie the hands of the employees, to lessen the mobility of labor, and to reduce the chances of concerted action. Furthermore, to the close corporation it may appear a recommendation that such plans do not necessitate the transfer to employees of a partial ownership in

the business. There are certain cases where a cash distribution is obviously the only practicable method, as when the participant's entire remuneration is paid in the form of profits, or when the same men are not employed for any considerable period. Traveling salesmen under individual profit sharing illustrate the former case, many of the employees of a building contractor the latter.

ADVANTAGES OF STOCK PLANS

It is difficult to generalize as to the advantages of stock distribution as a means of profit sharing, because differences in the character and value of stock affect the usefulness of this method, in varying degree, for the several groups of profit sharers. For the wage earning group it is clear that a stock plan should not be used unless the stock is a safe and attractive investment and has a surrender or ready market value. But the more or less speculative stock of a young or expanding concern, although undesirable for profit distribution among wage earners, may nevertheless be used to advantage for the executives and most important employees, whose activity so largely determines profits and the future prosperity of the business. The head of one corporation reports that he regards the success of his company as mainly due to the fact that in its early years stock was distributed among the principal employees, on a profit sharing basis, to be paid for entirely out of future earnings.

THE SENSE OF OWNERSHIP

The ownership of stock may confer widely differing rights and privileges, but it always represents a partial proprietorship in the enterprise. The sense of proprietorship is one of the most important effects of any stock plan, in so far as it develops loyalty to the concern, and enhances interest in working for it. Obviously the strength of this feeling increases with the amount of stock held, or which there is a prospect of holding, in relation to the total. It is not to be expected that the ownership of one share of stock in a one million dollar concern would exercise any marked influence upon the daily efficiency of an employee.

OTHER ADVANTAGES

The ownership of stock by employees may promote length of service, for, wages and conditions of employment being equal, an employee would ordinarily prefer to remain with a concern to which he is thus attached. Profit sharing through the distribution of stock also tends to promote saving, since the stock must usually be retained if the employee is to remain a profit sharer, and many who otherwise would not or could not save for themselves are led to secure a modest accumulation of capital. This, from a social standpoint, is desirable, and certainly from the standpoint of the employer the employee's possession of property is advantageous in that it makes him a more thrifty, industrious, and valuable individual. When a company's stock is increasing in value with growing profits, and when the stock

carries the voting privilege, the stimulus of ownership is naturally enhanced.

STOCK PLANS HAVE THE ADVANTAGES OF LOSS SHARING

By profit sharing through stock distribution much of the potential advantage of "loss sharing" is gained, without its danger of impairing, actually or potentially, the standard rate of wages or salary. The participant realizes that if the concern fails to earn profits he will suffer a positive loss from the lack of dividends (or credits) on the stock already accumulated, as well as a probable decline in the value of his stock. Since the employee has not only something to gain, but also the possibility of tangible loss, his incentive to zeal in the company's business is likely to be greater than in those plans under which he participates in profits, but runs no risk of incurring a positive loss.

DISADVANTAGES OF STOCK

The objection is sometimes made that profit sharing through stock distribution involves a constantly increasing investment and capital account, which may not always be possible or desirable. Mr. Alexander Horn (one of the managing directors of the English firm of Clark, Nickolls and Coombs, Limited), in discussing the difference in various establishments in this respect, says, "I wonder how Sir George (Sir George Livesey, Chairman of the South Metropolitan Gas Company) would deal with such a business as ours, where, during the sixteen years

our profit sharing scheme has been in force, we have paid in bonuses more than twice the amount of our ordinary capital, and we couldn't, if we wanted to, find employment for such an accumulation of capital as these bonuses represent. With a gas company, which is always increasing its mains and adding to capital account, it is different. We want to keep our capital account as low as possible."[1] Since, however, most concerns in the United States can to advantage use additional capital, this objection has little weight. Another objection is made on the ground of the speculative element in stock plans. It is suggested that if the stock is quoted on the stock market, those who begin with watching its fluctuations may perhaps acquire a harmful taste for market speculation. This objection of course disappears when profits are distributed in the form of a special issue of nontransferable stock to be held by profit sharers only, as described in the following chapter.

STOCK PLANS BEST FOR MANAGERIAL EMPLOYEES

Stock sharing is clearly better adapted to the salaried and managerial groups. Employees in these groups are more likely to understand the significance of stock and to value the possession of stock in the concern by which they are employed. In their case stock may serve as well as cash to stimulate to efficiency. And the danger that stock ownership may prevent an increase in remuneration by lessening

[1] In "Labor-Copartnership" for November 1, 1916.

the possibility of group action, a danger which lurks in stock plans for the rank and file, does not exist for these groups, where salaries are not standardized and unions are nonexistent. The ownership of stock does not prevent a salaried employee from bargaining for an increase of salary, nor indeed, from leaving the corporation if more profitable employment can be found elsewhere.

COMBINATION OF STOCK AND CASH

The employees may be given part of their profits in cash and part in stock. This plan is followed by the Baker Manufacturing Company of Evansville, Wisconsin, which pays its profit shares to employees ten per cent in cash and ninety per cent in stock. A combination of stock and cash has the merit that the stock distribution encourages savings, while there is also some cash immediately available. If the distributions are sufficiently large, such a combination plan combines the advantages of the cash incentive to efficiency and the continuing interest in the business secured by stock ownership. It is, of course, possible to vary the proportion of stock and cash distributed among different groups of employees. Profit payments, for example, could range from ninety per cent in stock and ten per cent in cash, for the managerial groups, to ninety per cent in cash and ten per cent in stock for the wage earners. The smaller the wage of the employee, the more desirable it is that his profits be paid to him in cash, and, therefore, if a combination is to be used, the smaller the wages the larger is the

share of profits which should go to the employees in cash.

PROFITS PAYABLE IN STOCK OR CASH, AT COMPANY'S DISCRETION

The company may retain the right to pay the employee's share of profits, in the form of either cash or stock at its discretion. This provision is contained in the plan of the Boston Consolidated Gas Company, although in practice it has always paid the profit in the form of stock. This gives the company a freer hand. But there is some danger of arousing resentment among the participants, if the profits should not be declared in the form they desire, or to which they are accustomed.

PROFITS PAYABLE IN STOCK OR CASH, AT PARTICIPANT'S OPTION

The company might give to the participants the option of taking their share of profits either in cash or in stock. So far as known, there is no such plan in existence, although the New Haven Gas Light Company permits an employee the choice of taking stock, or of taking in cash one-half the amount credited to him. This proposal, of course, implies the necessity of computing the stock at its full market value, or, in the case of concerns whose stock is not on the market, at its inventory value. But this option, while giving employees their liberty of choice, might hamper the management. In making plans for the future, it would not know exactly how much of the profits of the year would be available for use in the business, or how much would have to

be paid out in cash to the profit sharers. This uncertainty probably renders the plan impracticable for many businesses. But, as pointed out in Chapter VII, social expediency demands that such an option be given, if profit sharing by stock distribution is to be applied to the wage earning groups. The difficulty of harmonizing the conflicting interests points again to the inadvisability of distributing stock among the wage earners.

PROFIT SHARING THROUGH ESTABLISHMENT OF BENEFIT FUNDS

Lastly, a share of profits may be set aside and regularly paid to a fund which shall be available for the payment of sickness, accident, or unemployment insurance, old age pensions, or other benefits. This form of profit sharing offers no strong inducement to personal efficiency, since for most employees participation in the benefits of such a fund would seem too remote. It would probably, however, have some effect in promoting length of service, because, if wages and general working conditions were equal, employees would prefer to remain with the firm from which they could obtain these additional advantages. As the purpose of such plans is ordinarily a social rather than a business one, this method was discussed in Chapter XII on "Profit Sharing for Humanitarian Purposes."

SUMMARY

The form of profit distribution necessarily varies according to circumstances. In each case the

management must decide whether profit sharing through stock, through cash, or through contributions to a fund to be utilized for social purposes, or through any combination of these three methods, is most likely to effect the desired result among the particular group which is to participate. But in general it is apparent that where profit sharing for efficiency is the chief object, a cash distribution is preferable for the wage earners, while a stock, or cash and stock, method has many advantages for the managerial and discretionary groups.

CHAPTER XV

METHODS AND RESTRICTIONS IN THE DISTRIBUTION OF STOCK AND CASH

THE CHARACTER OF STOCK TO BE DISTRIBUTED

IF it is decided that profit sharing through some form of stock distribution best meets the needs of a particular establishment, the first problem which presents itself is the character of the stock which is to be distributed among the employees. This stock may be simply one of the ordinary issues of the company, common or preferred, a part of which may be distributed among the profit sharers and a part of which may be owned by others. The N. O. Nelson Manufacturing Company and the Baker Manufacturing Company distribute profits in the form of common stock, the only type of stock issued by these corporations. The Boston Consolidated Gas Company pays the profits in the form of preferred stock of the Massachusetts Gas Company, the holding company. Many concerns would not wish to distribute preferred stock among profit sharers, and the remoteness of such stock from the fluctuations in prosperity lessens its effectiveness as a means of profit sharing. Common stock is often of such a highly speculative nature that it would be inappropriate for use in a profit sharing plan. There-

fore it is frequently desirable to issue a special type of stock or certificates for distribution among the participants.

The Dennison Manufacturing Company pays its profits in the form of special "Industrial Partnership Stock," the par value of which is ten dollars, and which carries with it important privileges, but strict limitation as to sale or transfer. The International Harvester Company distributes "profit sharing certificates," exchangeable for common stock at three dollars less than the par value of the latter. If not so exchanged, the certificates bear four per cent interest annually, plus a one per cent cash bonus on wages. Lever Brothers, Limited, of Port Sunlight, England, issue "prosperity sharing certificates," which carry dividends after the preferred and common stock.

ADVANTAGES OF SPECIAL ISSUES

The use of special issues for participants offers several advantages. Stock can be issued in small denominations, thus enabling employees to obtain fully paid in shares more quickly. The amount of the total capitalization which has come about through the profit sharing scheme is always clearly indicated. A special issue also facilitates the making of any restrictions which it is thought desirable to apply to the stock held by employees. Or a special issue may be used to give special privileges to the profit sharers, as, for example, the right to elect a representative upon the board of directors.

METHODS BY WHICH STOCK MAY BECOME PAID FOR. OUTRIGHT SALES

An important problem is presented in the method of paying for stock. Corporations, realizing the advantages which arise from stock ownership by those in their employ, sometimes offer special sales inducements to members of their organization. The inducement may take the form of shares offered in small denominations. H. P. Hood and Company, milk dealers of Boston, have issued a special series of two hundred thousand dollars of seven per cent cumulative preferred stock certificates, in denominations of ten dollars, to be sold to, and held by, employees only.

The inducement may be an offer to employees of payment in installments. Such is the plan of the National Biscuit Company. This inducement is generally offered to promising young men who, it is hoped, will develop and on account of their stock ownership remain with the concern. The sale of stock to employees at less than its market price is not uncommon. But these outright sales of stock to employees, whether at market price or less, and whether paid for cash down or in installments, cannot be called profit sharing. Such transactions are simply sales of stock, and the difference between what the company gets for the stock and what it could have gotten for it from other purchasers represents the price which the company was willing to pay in order to induce the employee to become a stockholder. Of course,

after purchasing his share, the employee participates in profits, but he does so not by virtue of being an employee, but because he is a stockholder.

HOW DISTRIBUTION OF PROFITS IN FORM OF STOCK MAY BE ACCOMPLISHED

Profit sharing through stock ownership is quite a different thing from sales of stock to employees. It aims to combine the advantages of profit sharing with the advantages of stock ownership. The distribution of profits in the form of stock can be accomplished in two ways:

(1) Through the outright distribution of stock representing accrued profits, or

(2) Through the distribution of profits in the form of credits upon the purchase price of stock.

THE DISTRIBUTION OF STOCK REPRESENTING ACCRUED PROFITS

The first of these is the simpler. This is the form of profit sharing provided in the Nelson and Dennison plans. Under this method, when the employee obtains his stock it is fully paid for out of the accrued profits, which are invested in the business.

STOCK TO BE PAID FOR OUT OF FUTURE EARNINGS UPON IT

In the second form specified amounts of stock may be made available for distribution among employees, and their share of profit, as provided under the plan, or the dividend declared on the stock, is

credited towards the purchase price. This is profit sharing in the strict sense, since the rapidity with which the stock will become paid for depends upon the net earnings of the concern. The latter arrangement is one which is frequently offered to selected men of promise, or to certain groups of managerial employees. But, so far as we know, no firm has adopted it as a general plan of profit sharing for all employees.

When a corporation is largely owned by one man who wishes to withdraw from the active management, but who wishes to continue to hold an interest in the business, with its future assured, it often happens that he transfers a portion of his interest to a few of the executives, by such an arrangement. When the sale is of stock already outstanding in the hands of a stockowner, it is questionable whether the transaction may be properly regarded as profit sharing. It is simply a sale upon credit by one individual to another. If, however, the transfer is of new stock, issued for the purpose and increasing the capitalization of the concern, and is to be paid for out of dividends upon it, then it may be called true profit sharing. For the issuance of new stock means that every stockowner, to some extent, lessens his equity in the business, and shares it with the new stockowners. But for all practical purposes, without hairsplitting definitions, in either case the same result is accomplished; employees are made partners and are permitted to pay for their stock out of the profits which accrue upon it.

STOCK PAID FOR PARTIALLY BY EMPLOYEE AND PARTIALLY BY DIVIDENDS

Again, the stock may be paid for partially out of wages or salaries or out of the employee's other individual resources, and partially out of future dividends upon the stock, to be credited upon the purchase price until complete payment is made. The plan of the Youngstown Sheet and Tube Company, which includes only principal employees occupying managerial positions, provides that participants themselves shall pay ten per cent of the purchase price of stock, the other ninety per cent to be paid by the accumulation of dividends upon the stock. Essentially the same provision is contained in the plan of the A. W. Burritt Company described in Chapter IX. Under the plan of the Interlake Steamship Company of Cleveland, stock is paid for by regular contributions from the salaries of participants, to which is added the dividends declared on the stock. The same principle is used by many other companies.

This plan has the advantage that the company acquires at least some capital from outside sources. A larger amount of capital stock can be issued, based upon any given amount of profits. It is also to be assumed that the employee, having partially paid for the stock out of his own earnings or resources, is likely to have a keener sense of proprietorship and to take a deeper interest in the company. This method, however, has the disadvantage that the requirement of a voluntary payment by the employee may deter

many of the group desired as participants, who may prefer not to invest their savings in this way. The response of employees to these offers has been in some cases very disappointing to the management.

STOCK PAID FOR PARTIALLY BY EMPLOYEE, PARTIALLY BY DIVIDENDS, AND PARTIALLY BY BONUS

By another plan stock may be paid for partially from wages (or the employee's resources), partially from dividends upon the stock credited to the purchase price, and partially by a bonus paid by the company to all profit sharing employees. Such a bonus may be based upon wages, or upon the number of shares owned, or upon length of service. The United States Steel Corporation provides that employees shall make monthly payments upon the stock of not less than two dollars per share. To this is added all dividends declared on the stock, and an annual credit of five dollars per share upon the subscription account, if the employee has fulfilled all the conditions of "continuous and faithful service." The employees of the United States Rubber Company make minimum monthly payments of five dollars per share, and receive all dividends declared on the stock until the stock is fully paid for, together with an annual bonus of three dollars per share to the employee's account if "he has been continuously" in the company's employ during the preceding year, and has shown "a proper interest in its welfare and progress." The plan of the National Carbon Company calls for monthly payments which

shall average, per month, at least one per cent of the subscription price, to which the company adds a bonus of five dollars per share annually until the stock is paid for, "provided the subscriber remains in the continuous employ of the company and shows a proper interest in the company's welfare."

SUCH BONUS PAYMENTS CONTAIN NO ELEMENT OF PROFIT SHARING

In such plans the bonus to which the company definitely commits itself contains no element of profit sharing. The combination of stock purchasing and bonus contains usually only a small element of profit sharing, and should not be represented as a "profit sharing plan," as sometimes happens in letters and circulars to employees. It should always be made clear to the participants just how far the plan constitutes profit sharing, and just how far they themselves are paying for what they get. If the company adds a bonus such as those above described, to be credited to the purchase price of the stock, this should not be construed as a part of the profit sharing plan, for the bonus is paid in return for continuous service or some other result desirable to the company. It does not vary directly with earnings, and the company undertakes its payment regardless of profits.

RESTRICTIONS UPON THE AMOUNT OF STOCK OBTAINABLE BY THE EMPLOYEE

When employees are given the privilege of purchasing stock which is to be paid for in whole or in

part out of its dividends, it is proper that a reasonable limit should be placed upon the amount to which an employee may subscribe. This amount may be graded according to the participant's wage or salary. The Youngstown Sheet and Tube Company permits each participant to subscribe for an amount of stock equivalent to his annual salary. The United States Steel Corporation has a carefully worked out schedule, showing the number of shares for which an individual in any given salary group may subscribe. The A. W. Burritt Company permits participants to subscribe for one thousand dollars of stock for the first one thousand dollars of salary and for five times the amount of the subscriber's salary in excess of one thousand dollars, with the privilege of a second subscription on the same basis when the first is paid for. Or the amount may be uniform for all. The Thomas Devlin Manufacturing Company of Burlington, New Jersey, permits all participants to subscribe for one thousand dollars worth of stock. In order to recognize length of service, it may be found advisable to take account of the period of employment, as is done by the Procter and Gamble Company. This firm permits an employee to subscribe for an amount of stock equal to his annual salary, but after five years of service he may subscribe for twenty-five per cent more, and again in five years he may increase his subscription by twenty-five per cent.

NO RESTRICTIONS UPON AMOUNT OF STOCK OBTAINABLE BY AN EMPLOYEE, UNDER SOME PLANS

When the plan is one under which the employee's accrued profits are simply distributed in the form of stock, without any payments being made by him, restrictions may be placed upon the maximum amount of stock which he can own, but they are not customary. There is no restriction in the plans of the Boston Consolidated Gas Company, the Dennison Company, the New Haven Gas Light Company, and the N. O. Nelson Company. If no restrictions are imposed, the amount of stock owned by all employees continually increases. Unless capital in addition to the employee's share of profits is from time to time invested in the business, it is possible that the employees will ultimately own the controlling interest, unless restrictions are placed upon the voting power of their stock, or upon the total amount of stock to be held by them. If it is intended that the participants shall ultimately own the business, or control and formulate its policies, such purpose can best be achieved by imposing no restrictions whatever as to the amount of stock which they may possess.

DEFERRING THE ISSUANCE OF STOCK

When the plan provides that the profits which accrue to the employee shall be paid to him in stock, the stock is usually issued to him as soon as profits are declared, if his profits are sufficient to pay for one share, or more. If the profit share is not equal

to a share of stock, he obtains immediate credit on the purchase price of the stock. But when the plan provides that stock is to be issued and paid for, in whole or in part, out of future earnings upon it, the stock ordinarily is not transferred to the name of the participant until it is fully paid, and he is not entitled to its voting privilege until that time. In the meanwhile he is ordinarily protected by a contract with the company. The A. W. Burritt Company permits him to attend the stockholders' meetings by virtue of his contract. If it is desired to give the employee voting privileges before the stock is fully paid up, in order to secure his participation in management, this may be accomplished by issuing "partnership certificates" or "certificates of interest" in stock, carrying the voting privilege. This has been done by some English concerns.

While it is obviously proper to withhold stock until it has been fully paid for, it, or its equivalent, should be issued as soon as it *is* fully paid. Some schemes provide that even when fully paid the stock shall be held in the name of the employee, but shall not be delivered to him until after the completion of a stated number of years of continuous employment, and may be forfeited unless this period of continuous employment is completed. A recent announcement to the employees of a large company stated that a certain sum had been set aside as a profit sharing fund. To those whose salaries exceeded five thousand dollars, the profits were to be paid, sixty per cent in cash and the remainder in "nonassignable conditional certificates of interest

in the common stock." These certificates provide "that if the participant shall remain continuously in the service of the company or one or another of its subsidiary companies until April 1, 1921, and shall during all of such time have rendered faithful and satisfactory service . . . the stock called for by his conditional certificates will be delivered to him as his property, . . . that if he shall voluntarily quit the service of the company . . . or shall be discharged or be removed for cause by his employer before April 1, 1921, he shall forfeit all right to the stock and to the conditional certificates."

Such a restriction is calculated to promote length of service, but, even among men who take advantage of the plan, is likely to produce an attitude of mind inimical to the very spirit of coöperation which profit sharing endeavors to develop. Other methods can be used which encourage length of service more efficaciously than withholding from the employee that which he tends to regard as his own. If, for any reason, stock is to be placed with a trustee, the participant should be given a trustee's certificate, so that he possesses title to the stock. This is done by the Procter and Gamble Company, which deposits the stock with trustees selected by the company, but issues transferable trustee's receipts to the owners of the stock for it.

RESTRICTIONS UPON THE TRANSFER OF STOCK

Many of the desirable results of profit sharing through stock distribution will not be obtained if employees are free to sell or keep their holdings as

they choose, while they remain in the company's employment. Some concerns, as, for example, the New Haven Gas Light Company, do not prohibit employees from selling their stock or offer any particular inducement to them to hold it. An official of this corporation writes: "The number who sell the stock for cash in order to meet unusual expenses and unusual extravagance is much larger than we would wish." Ordinarily, in order to induce participants to retain their stock so long as they remain employees, various restrictions are included in stock plans. In some cases the stock may be sold, but by so doing employees sacrifice their future rights as profit sharers, although they may be retained as employees. Such a provision is found in the plans of the Procter and Gamble Company and the Boston Consolidated Gas Company. The plan may permit employees to sell their stock, but the company may offer special inducements to them to hold it, such as a bonus upon the stock held. This is one of the purposes of the bonus paid by the United States Steel Corporation. In other instances the stock may be made nontransferable or nonassignable, so long as the participant remains in the employ of the company. Such is the provision of the Dennison plan. In the Burritt plan, stock is transferable only to the other participants. The N. O. Nelson Company stands ready to loan to employees upon their stock, in case of need or emergency, up to fifty per cent of its market value, thereby lessening their temptation to sell the stock, although they have the privilege of selling it.

It is obvious that no financial injury to the corporation will ensue through employees selling their stock, if the corporation is an open one, and if this stock is regularly dealt in on the market. In such a case, the purpose in restricting transfer is to retain the profit sharing interest of the employee. But a close corporation, in order to protect itself properly, should further provide that if an employee wishes to leave the company, or to part with his stock, he must transfer it to the company, or at least offer it, upon specified terms. The Baker Manufacturing Company, for example, requires that if an employee wishes to sell his stock, he must sell it to the company at the "market price," determined by ascertaining the "average price" at which the last one hundred sales of stock have been made. Likewise, if there has been a special issue of stock for profit sharers, conveying special rights or privileges, it should be stipulated that it must be transferred only to the company and upon specified terms, or upon terms to be set according to some definite agreement.

RESTRICTIONS UPON STOCK IN CASE OF WITHDRAWAL FROM EMPLOYMENT

Some corporations have deemed it wise to place certain restrictions upon the stock, in case of the profit sharer's withdrawal from employment. If the issue of stock is not a special one for profit sharers, and if the company is not a close corporation, there is no valid reason why an employee who has become the owner of fully paid in stock should

not retain it in case of voluntary withdrawal or discharge. The N. O. Nelson Company permits its stock (which is all common) to be retained by employees who leave the company. Under the Procter and Gamble plan, if an employee leaves the concern or withdraws from the profit sharing plan, he is entitled to a refund of the actual amount of cash paid in on the stock from his own resources, if he has been a participant for less than two years, or if less than thirty-five per cent of the purchase price is credited to his account. But if employees who have been participants for more than two years, or who have a credit in excess of thirty-five per cent of the purchase price, withdraw from the plan or are discharged, they obtain an amount equal to their cash payments plus all dividends credited to them. The Youngstown Sheet and Tube Company provides that if an employee resigns or is discharged within two years of the date of his subscription, he will receive in cash all of the net credits on his subscription, together with an extra dividend of ten per cent of the par value of the stock subscribed for. If the withdrawal takes place after the expiration of two years from the date of subscription the employee has the option of paying the subscription in full and taking the stock, or of taking certificates for the portion of the subscription already paid for.

If the stock is a special issue for profit sharers or if the company is a close corporation, withdrawal from employment should involve the transfer of the stock to the company. The terms of such

transfer or the method of establishing the transfer value should be definitely stipulated in the profit sharing plan, to avoid trouble later. One close corporation experienced much trouble, because of its failure to include in the profit sharing agreement some method of estimating the value of the stock upon the employee's withdrawal. Under its plan, employees upon withdrawal were to "offer" their stock to the company, but there was frequent disagreement as to the price which should be paid. Since the employee was not compelled to accept the price offered by the company, there was always the danger that the stock might pass into hands unfriendly to the management or to the controlling interests.

The Dennison plan provides that whenever a profit sharer ceases to be an employee, his "industrial partnership" stock must be transferred to the company, in exchange for cash to the amount of the par value of his stock, or for an equal amount of the company's second preferred and non-voting stock at the company's option. The Burritt plan provides that upon withdrawal an employee's stock is to be exchanged for second preferred stock, which may be retired at will by the company. If stock is being paid for partially by the employee from wages or individual resources, and partially out of dividends, but upon withdrawal is not yet fully paid up, it is evident that the employee should obtain a cash refund or surrender value of at least all that he has paid in towards the stock. Whether he should receive, in addition to this, a refund of all or a part

of the dividends credited towards the purchase price of his stock, would depend largely upon the purpose and other provisions of the plan.

RESTRICTIONS UPON STOCK IN CASE OF EMPLOYEE'S DEATH

Logically, the provisions applicable to stock in case of withdrawal are equally applicable in case of death of the employee. Stock fully paid for, if the corporation be not a close one, may be passed on to heirs. It is a common thing for the stock of the N. O. Nelson Company to be retained by the heirs of deceased employees. If the stock is a special issue intended for profit sharers only, and carrying special privileges, it may be provided that upon death of the holder his stock may be cashed in, or that it may be exchanged for a different type of the company's securities, for example, a non-voting and limited dividend stock. If stock is being acquired by a plan under which it is to be paid for totally or partially out of dividends accumulated upon it, but is not yet paid for at the time of the participant's death, it would seem that the surrender value, either in cash or stock, might well be the total amount of accumulated credits. The Youngstown Sheet and Tube Company provides that if the heirs of a deceased employee wish to settle the unpaid balance of his subscription by cash payment, the stock will be issued to them. This would be a fair arrangement but one not applicable if the issue were a special one for employees only.

RESTRICTIONS IN CASH PLANS

The problem of restrictions is much simpler in a cash plan than under a stock scheme. There is not the same necessity for safeguarding the plan with detailed stipulations as to future contingencies, transfer and the like. But of course the possibility of withdrawal from employment must be provided for. The usual provision is that those who leave the employ of the company before the date of declaration of profits forfeit all right to participate in profits for the current period or year. Under the plan of the Hollenberg Music Company, of Chicago and Little Rock, the employee who resigns or is discharged also forfeits one-half of his share of the preceding year's profits, which have been declared but not yet paid. The preceding half-year's profit payment is always withheld, and forfeited upon withdrawal. Such a forfeiture does not seem consistent with the liberal policy recommended in this study as essential to permanently successful profit sharing. The same policy indicates also the expediency of considering whether it would not be fairer, especially when some prior length of service is required before the profit sharing period begins, to allow an employee withdrawing before the expiration of the period to participate in profits, to the extent of his pro rata share, upon a basis of the time actually served. Of course he would have to wait until the profit paying date to receive such payment. If the withdrawal from employment be due to death, it would seem especially desirable that

his heirs should receive an amount representing his proportionate share of profits, for the period actually served.

SUMMARY

In stock plans, it is frequently desirable to issue a special type of stock for the profit sharers. Their stock, whether or not of a special type, may be paid for, in whole or part, from their share of profits accrued or future. It may be necessary to restrict the amount of stock which participants can acquire, and their transfer of stock while they remain employees. When the stock is a special issue, and in the case of a close corporation even if it is not, provision must be made for the transfer of the stock to the company upon withdrawal from employment. In cash plans fewer restrictions are necessary, the possibilities of withdrawal and death being the chief contingencies to be provided for.

CHAPTER XVI

THE BASIS OF PAYMENT

PAYMENTS DISCRETIONARY WITH THE MANAGEMENT

IF the method by which the total amount or proportion of profits to be divided and the form in which profits will be paid have been decided upon, it still remains to be considered how and upon what basis this total amount shall be divided among the various participants. It is thought by some that while it is advisable to have a fixed basis as to the total proportion of profits to be divided, so that participants may have a definite assurance against bad faith upon the part of the employer, it is not necessary to have a definite arrangement as to the manner in which this total shall be divided among the individual participants. Indeed, it is claimed that the announcement of division among participants upon a basis of efficiency as judged by the management puts each participant on his mettle to do his utmost.

This principle is followed by a plumbing supply house of Philadelphia, which distributes among its principal employees, consisting of managers, department heads, assistant department heads and the like, twenty-five per cent of net profits, after deducting five per cent interest on capital invested. The share of the individual employees is determined at

the end of the year by the management, in accordance with efficiency, loyalty, and the growth or improvement which participants have shown during the year. The percentage of profit sharing payments to wages shows a considerable variation among the different participants. The management feels that this method serves to make the employees more alert to prove their fitness than if the share of each individual were to rest upon a predetermined basis.

DISADVANTAGES OF SUCH PLANS

While such a plan might provide a more powerful incentive to some, this advantage would tend usually to be more than offset by the danger of jealousy and friction among participants. It might arouse resentment among them on account of what they would regard as unfair or disproportionate payments. It might develop a suspicion of favoritism and of "toadying" to the management. Such a spirit would be prejudicial to successful profit sharing, especially where cordial coöperation among participants is desirable. The company above referred to, it should be noted, stipulates that no participant shall reveal to another the amount of his payment. This rule is not easy to enforce, particularly where there is a large number of participants. It seems clear that a greater spirit of coöperation will be developed, that less suspicion of the management will arise, and that a more dependable incentive will be provided, if the basis of payment, not only for the group as a whole, but

also for each participant, be definitely fixed and established in advance. Assuming that this is to be done, the important question is — "What shall that basis be?"

CLASSIFICATION OF EMPLOYEES FOR PROFIT SHARING PURPOSES

If employees of different rank are to participate in the plan, they may be classified into groups, based upon rank or approximately upon their power to influence profits. The basis of payments to the individual may then be made the group to which he belongs. The Ballard and Ballard Company follows such a method. Each of six executives receives, in addition to his salary, five per cent of the profits. Two others get one and one-half per cent of profits, and three others get one per cent each. These percentages have no relation to salaries. Of the total profits ten per cent is also divided among all other employees, consisting mostly of wage earners, in proportion to salaries or wages. The William Filene's Sons Company provides that fifty per cent of the profits available for distribution shall go to the managerial group, consisting of six executives, the other fifty per cent being divided among the twenty-five hundred other employees in proportion to salaries. The Studebaker Corporation, which shares profits among its principal employees, divides them into groups, according to the importance of their responsibilities. The total amount distributed is a portion of the excess over certain stipulated dividends on stock. This amount is divided

into four parts, one for each group, the higher paid groups receiving the larger parts. The Solvay Process Company divides its participants into three classes, called the First, Junior, and Senior groups. The proportion of profits paid to the participant depends not only upon the class to which he belongs, but also upon the salary he receives; the members of the Junior group obtain twice the percentage upon salary received by those in the First group, the members of the Senior group three times as large a percentage as members of the First group.

ASSUMPTION UNDERLYING CLASSIFICATION PLANS

The classification of employees into groups, with varying percentages of profits for each group, is at present the exception rather than the rule. Where it exists it seems to rest upon the assumption that the larger their regular salaries, the greater will have to be the prospective special payments, both absolutely and relatively, if these payments are to have a markedly stimulative effect. A week worker, earning regularly, say eight hundred dollars per year, may conceivably be moved by the prospect of a possible six per cent dividend on his wages, or forty-eight dollars, to render more valuable service than he otherwise might. But, it is thought, a manager or department head, receiving thirty-five hundred dollars or five thousand dollars or more, will not be equally interested in the possibility of a payment of six per cent on salary, and he is therefore not likely to work much harder to obtain it. It is claimed by

the head of one concern, which has had a long and successful experience in profit sharing, that he can see where the possibility of a five to six per cent dividend on wages ceases to be an efficiency producer in his organization. He believes that it stops with the week workers and that the prospect of such a distribution does not secure from the higher salaried employees results which are noticeably different from those which their regular salaries would secure, and that to stimulate them to their best, there must be the possibility of a relatively larger special return. For the higher paid employees, therefore, he has arranged a more liberal profit share through a plan of stock distribution.

DISADVANTAGE IN CLASSIFICATION

It is, indeed, probable that to elicit an equal interest on the part of high salaried employees the prospective distributions must be larger, in relation to regular earnings, than those to the lower paid groups. But this discrimination may cause resentment among the lower paid employees, who may regard it as undue favoritism to those in the upper ranks, particularly if the plan includes employees of many or all grades, or if the percentage of profits going to different groups differs widely. This disadvantage could be obviated by providing an entirely different kind of plan for the higher paid groups, such as a stock distribution plan, when cash is used for the lower paid participants. This is the method followed by the A. W. Burritt Company.

TWO BASES FOR MAKING INDIVIDUAL PAYMENTS

Whether or not employees are classified for profit sharing purposes, the individual payments of profits may be in proportion to wages, salaries, or earnings; or they may be in equal amounts regardless of earnings. R. A. Bartley, wholesale grocer, of Toledo, Ohio, who does not group participators, distributes an equal profit share to his employees regardless of salaries. The same plan is followed by a few English firms. Likewise the Studebaker Corporation, which divides its participants into groups with a varying percentage of profits to each, divides the amount equally among the members of each group, despite the fact that there are differences in salary within each group. However, participation in profits directly in proportion to salaries, when employees are not classified, and participation within the group in proportion to salaries when they are classified, are the usual arrangements.

THE WAGE BASIS IS PREFERABLE

Distribution of profits on the wage or salary basis, rather than the per capita or equal distribution, is the more common method because it is the most expedient. Whether or not employees are classified, it seems clear that as regards the basis of individual payments this method is preferable. A man's earnings may be regarded as the market price upon his ability. This price is not an accurate measure, but it is, as a rule, approximately adjusted to the relative value of the individual's contribution to an

enterprise, or of his contribution as compared with others of his own group or rank. It is, therefore, as fitting that the employee in the more responsible position should share more largely in profits as it is that he should be paid higher wages. It may be objected that the salary basis of distributing profits tends to increase the economic inequalities among the several grades of workers. The practical answer is that unequal distribution of profits, like the existing unequal wage or salary payment, is commonly accepted as just and reasonable by the workers themselves. There may be circumstances under which the per capita or equal distribution of profits is feasible, as in a group of employees among whom the differences in wages are slight. But where there exist any considerable differences in wages, a profit sharing plan similarly differentiated is more likely to operate effectively.

SUMMARY

The apportionment among individual participants of the total amount of profits available for them, at the management's discretion, is not ordinarily to be commended. Not only the basis of participation for the group, but also for the individuals, should be definitely predetermined. If a plan includes employees whose earnings are widely divergent, it will frequently be advisable to classify them. For it may be that the higher paid employees will require a special inducement which is not only absolutely, but also relatively, larger. In such cases the better way will be to arrange different plans

for different groups of employees. As a rule, the distribution of profits among the members of a group in proportion to wages, salaries, or earnings, will prove more effective than a per capita or equal distribution.

CHAPTER XVII

OTHER QUESTIONS OF METHOD

I. THE STATEMENT OR AGREEMENT

SIMPLICITY IS DESIRABLE

A SUCCESSFUL profit sharing plan must be sufficiently simple so that the participants will easily understand it. Other things being equal, the simpler it is, the better. This principle has frequently been ignored. A New Jersey manufacturing concern has in operation a plan whereby the rate of distribution is a certain per cent of the salary of each employee, for each one hundred thousand dollars of net gain to surplus during the year. This plan includes all employees getting more than sixty dollars per month. It is hardly necessary to point out that many employees would not understand what a surplus is, how it is computed, the factors which cause its increase, or the relation between their individual efforts and its size.

A Massachusetts corporation engaged in manufacturing jewelry has a profit sharing plan including all employees, the details of which are anything but simple. Not less than eight per cent nor more than twelve per cent of the amount paid as dividends to the stockholders is to be divided by the total amount of wages paid all employees. The percentage thus

obtained constitutes the rate of dividends upon the employee's salary for the year. A Western employer announces that he will distribute profits upon this basis: At the end of the year a certain percentage of the total wages account and a similar percentage of the net profits is credited to the wages account. The percentage by which the total credits thus made exceed the total wages account will be the percentage of each individual's wages which shall be paid him as his share of profits. Such plans as the above are unnecessarily complex, and are likely not to be understood by many employees.

THERE SHOULD BE A DEFINITE STATEMENT OR AGREEMENT

Not only should the plan be simple, but it should be embodied in a definite statement, agreement, or contract. The terms should not be merely understood in a general way, as, for instance, by announcement to employees at a general mass meeting. A definite and accurate statement of the terms should be placed in the hands of each participating employee. This precaution will go far to avoid the danger of later misunderstandings and disputes.

ALL CONTINGENCIES SHOULD BE PROVIDED FOR

In drafting the terms of the agreement great care should be taken to provide for all situations or contingencies which may possibly arise under it. A New York manufacturing concern paid rather dearly for failing to do this. The company adopted

a plan confined to executives, department heads, and the managerial and scientific employees. Under this plan the profit payments varied with the dividends paid to stockholders. A few years later the company wished to issue a large stock dividend. This was a contingency not specifically provided for under the agreement. The participants took the position that under the particular circumstances which obtained, this was in effect a dividend upon outstanding stock, and that therefore they were entitled, for profit sharing purposes, to have it regarded as a cash dividend. The company did not wish to place itself in the position of being accused of bad faith, and therefore it yielded to the participants' contention. This was a situation which should have been foreseen, and the policy to be followed should have been decided in advance and provided for in the profit sharing contract.

II. FREQUENCY OF DISTRIBUTING PROFITS

FREQUENCY IS DESIRABLE

The power of exercising forethought differs among men, but, generally speaking, the more distant the future event the less thought will be given to it. From this it would seem to follow that the more frequent the distribution of profits, the more effective profit sharing will prove as an incentive. Within certain limits, set by the forethought, the habits, and the economic necessity of the various groups of employees, this is substantially true.

THE ANNUAL DISTRIBUTION

The most usual plan is to distribute profits annually. This arrangement has probably been adopted in most cases because it best suited the convenience of the company rather than because it would contribute to the effectiveness of profit sharing. If profits are to be distributed in the form of stock or credits on the purchase price of stock, an annual distribution may prove satisfactory. For under such schemes the prospect of securing cash for immediate purposes is not present as an incentive. But if the distribution is to be in the form of cash, the frequency of the distribution may well be adjusted in accordance with the habits, character, and needs of the participants. Ordinarily, an annual distribution will prove satisfactory in high salaried ranks, for there the incomes are larger and the individuals are accustomed to think in terms of years. But even in this group, when the participants are expected to derive a large share of their incomes from the profit sharing payments, as for example department heads upon a unit or traveling salesmen upon an individual profit sharing basis, it is evident that the distribution must come more frequently. Such employees should generally receive their share of profits monthly or at least quarterly.

MORE FREQUENT DISTRIBUTIONS SOMETIMES DESIRABLE

For any employees other than the higher paid groups a cash plan will probably prove more effective

if the distribution comes more frequently than once a year. Outside of these groups the conditions of life have necessarily limited the exercise of forethought to comparatively short periods, and the desire for funds for immediate purposes is always present. Therefore the prospect of a share of profits in cash, within a comparatively short time, will operate more effectively as a stimulus than if such distribution were further removed.

BUT DISTRIBUTIONS SHOULD NOT BE TOO FREQUENT

But the distribution must not be so frequent that the amount of profits distributed will seem negligible. Consider, for example, an employee earning fifteen hundred dollars per year. A six per cent wage dividend would be ninety dollars. If paid in a lump sum annually this would constitute the equivalent of about three weeks' wage. To an employee of this earning capacity the prospect of obtaining three weeks wages extra, if the profits of the business prove good, might operate with considerable effect. On the other hand, if profits were distributed to him weekly, his share would represent an additional compensation of less than two dollars per week. The difference would be so slight that he would be likely to regard it as simply an increase in wages. Such a payment would probably not prove as effective a stimulus as the annual distribution of the larger sum. In such a case a quarterly or semi-annual distribution would obtain the advantages arising from frequency of payment and avoid the

danger of reducing the sum to a too small amount. Profit sharing, if it is to operate effectively as a stimulus, must provide for payments which shall be, and which the employee shall regard as being, a considerable amount in addition to regular earnings.

SOME FIRMS MAKE FREQUENT DISTRIBUTIONS

The advantages of frequent distributions have been recognized by some concerns. The Great Department Store of Lewiston, Maine, and the Procter and Gamble Company, both make their distributions semi-annually. A quarterly payment is the practice of the Grand Rapids Gas Company, and of the English firms of Robinson Brothers, Ltd., Ryders Green, West Bromwich, and T. Morley, Kings Road, Reading. Other periods may be chosen, not corresponding with calendar months but based upon the conditions obtaining in the business. The Benoit Clothing Company divides the year into eight periods, the grouping of months resting upon conditions existing in the clothing business. In a limited number of industries the profit upon each job may be distributed upon the completion of the job. If the employee, upon withdrawal or discharge, must forfeit all claims to a share in profits, it is particularly desirable that these dates should be fairly frequent. No doubt a distribution more frequently than once a year would be possible in many concerns now employing the annual basis. But there are some establishments, such as those in which the demand is seasonal or in which it would not be feasible to use an

accounting period of less than a year, in which it would not be practicable to make short term distributions.

AN OBJECTION TO FREQUENT DISTRIBUTIONS

One objection which may be urged against frequent distributions is that, paid in small installments, they will not be so likely to promote thrift and savings. If an employer is primarily or largely interested in the social purpose of promoting thrift rather than of increasing personal efficiency, he may well weigh carefully this argument. There is doubtless some foundation for it, although its strength will depend largely upon the character and rank of the employee group.

III. PUBLICITY OF EARNINGS

THE PROBLEM

Is it necessary or desirable that some provision should be made whereby participants in profit sharing plans can be assured that they obtain the full payment to which they are entitled, under the terms of the plan? In other words, to what extent must a company, in introducing profit sharing, provide for giving to the employees the facts regarding its financial operations, its investment, its earnings, and its total or departmental profits?

PUBLICITY OF EARNINGS NOT NECESSARY IN SOME PLANS

Under some plans of profit sharing there is no necessity of divulging knowledge regarding the

investment or earnings. For example, if a wage dividend is paid which is dependent upon the rate of dividends on stock, employees would gain nothing by such information. For the rate of dividends paid on stock may be easily ascertained. For the same reason, when the plan is one under which dividends upon stock are simply credited to its purchase price, such information would add little to the effectiveness of the arrangement. When individual profit sharing is to be used, as with traveling salesmen, there is no need for any knowledge being given as to total investment or earnings. Usually under such plans, the goods are quoted to the salesmen at a stipulated "cost" price (to which there is sometimes added a certain percentage to cover overhead expenses). Such an arrangement places the participant in a position to verify the company's statement as to the amount of profit due him. When departmental or unit profits are to be shared, the department head or branch manager is generally in a position to verify the company's statement as to his share of profits.

PUBLICITY OF EARNINGS DESIRABLE IN OTHER PLANS

But when some fixed proportion or share of general profits is to be divided, it is difficult for employees to know that they are obtaining the correct amount, unless some special provision for this purpose is made. It therefore becomes desirable in such plans that some method should be provided whereby the participants may assure themselves that they are getting the full amount to which they

are entitled. It must be admitted that profit sharing employers and corporations have given much less thought and consideration to this question than its importance deserves. It is probably true that in the majority of profit sharing plans now in operation the corporation could make the profit sharing fund whatever it should choose, regardless of the provisions in the profit sharing agreement. This is because of the lack of any effective provision for guaranteeing to the employees that they shall obtain the amounts to which they are entitled under the plan.

OBJECTIONS TO PUBLICITY

Many objections are advanced against any provisions for publicity of earnings or financial operations. Some of these objections were considered by Mr. George W. Perkins, in an address before the National Retail Dry Goods Association in February, 1914. Mr. Perkins said in part: "Profit sharing on the basis I favor is sometimes objected to by men or concerns who do not wish to let even their own employees know how little or how much money they are making each year. To such men I always say — and each year I am more and more certain that I am right in saying — that they are very short sighted if they do not make haste to change their policy. If they are not making enough money, if the business is running on a close margin each year, then by all means they should set their situation before their men, and adopt a profit sharing plan as I have outlined, and get the genuine coöp-

eration of every single man in lifting their profits and putting their business in a prosperous condition. . . . As for the man who is making so much money that he is afraid to let even his own employees know how much he is making, to that man I say that he is the type of man who, more than any other, is responsible for the serious difference existing between capital and labor; for with the growing intelligence of the masses, how can he expect such a condition to continue? It is unnatural in the first place, and every year — yes, every day, makes it clearer and clearer that such conditions will no longer be tolerated and must speedily pass away. . . . One reason why a man who is making handsome profits does not want to publish them or let anyone know about them is the fear of his competitors. Another reason is that he wants to put those large profits away for a rainy day when business may not be so good. Such a man's best protection against his competitors is an organization of the highest possible efficiency."

PROTECTION DESIRABLE BOTH UNDER STOCK AND CASH PLANS

Without giving assent to all that Mr. Perkins here says, it is interesting to note his recognition of the wisdom of assuring participants that they are receiving the payments to which they are entitled. This is equally desirable whether the profits are to be distributed in the form of cash or stock. If the profits are regularly distributed in stock the participants as stockholders are privileged to obtain

the annual reports of the company, and, theoretically, to secure access to the books of the company. But reports may consist simply of the information which the management wishes to give out, and the theoretical right of stockholders to secure access to the books of the company is now difficult if not impossible of enforcement. Therefore it would seem that it is equally desirable to protect participants whether the distribution be in the form of stock or cash.

ABSENCE OF PROTECTION IS A STRAIN UPON CONFIDENCE

In some plans there is no provision for thus protecting the participants. The company merely makes a payment to the individual employee with the assurance that this is the amount of profits due him, or it issues a statement to the employees announcing a percentage of wage dividend to which they are entitled for the year or period, and payment is made on this basis. The employees have no alternative but to accept the bare statement. While such an arrangement may prove satisfactory as long as there is a large degree of confidence among employees in the management, or as long as profits are large, the time may come, especially in lean years, when trust is undermined by suspicion. It will usually be found advisable to insure the permanence of confidence.

METHODS OF PROVIDING PROTECTION

It may be provided that the participants shall have the right to appoint an accountant for the

purpose of verifying the company's statement as to profits. This is done by the A. W. Burritt Company. Even though the participants may never exercise this power, their reliance upon the sincerity of the management is thereby increased, provided, of course, that they are sure no disfavor would follow if they should ask for the accounting. The N. O. Nelson Company, at the inauguration of its plan, asked all the employees to join in the election of an auditor to verify the dividend figuring, and they chose a department head. A company may even go so far as to provide that the employees shall have the *sole* right to name an accountant who shall ascertain the amount of profits available for distribution. This is the plan of the Minneapolis Bedding Company. This provision, however, is more than most employers would be willing to concede, and perhaps more than the circumstances would justify. Another method is for the company to employ a certified accountant to go over the accounts, and to certify to the employees as to the amount of profits available for distribution to the participants under the terms of the agreement. This plan is in use by a number of English firms, including Blundell, Spence and Company, Ltd., of Hull; Stainsby & Lyon, Ltd., of Knottingley; and Rollason & Jones, of Nuneaton. Another plan accompanies the payment to each employee by the certification of an accountant that such payment constitutes the amount to which he is entitled, under the terms of the agreement. Of course the suspicious employee might object to an accountant selected by the

company, but if the accountant or accounting firm were one of recognized standing this objection would probably disappear. In the Filene plan the profits available for distribution are ascertained by the company, with the assistance of a representative of the Filene Coöperative Association, which is an organization of the employees.

A SUGGESTED METHOD

In view, however, of the difficulties in giving to either party the sole appointive power and the possibilities of marked differences of opinion when one accountant is employed to verify the work of another, it may be that the appointment of an accountant agreed to by both parties would be satisfactory. If the method of allowing deductions from gross earnings, such as interest and depreciation, and of computing the profits available for distribution, were definitely stipulated in detail in the profit sharing agreement, there would be further removal of the possibility for suspicion or for differences of opinion. Any disputes which might arise under this or any other plan might be referred to arbitration. This provision is contained in the plan of the A. W. Burritt Company. Whatever the method may be, it does not need to reveal the detailed accounts. For example, nothing would be gained by giving to employees under a general profit sharing plan information regarding the manufacturing costs or purchase price of certain articles, or the portion of its income which the company

derives from the sale of different commodities, or from the various departments.

SUMMARY

A definite statement or agreement, simple in form and anticipating the contingencies which may arise, the frequency of distributions adapted to the character of the participating group, and provision for publicity of earnings to the extent necessary to maintain the confidence of participants: — these are essentials of method, in sound profit sharing. The method of protection provided need not open the books to the individual participants — it simply need be one which guarantees and assures the participants that they are receiving the full amount of profits to which they are entitled under the provisions of the plan.

CHAPTER XVIII

CONCLUSION

ENCOURAGING PERSONAL EFFORT

IT has been shown that the participation of employees in the general profits of a business or in the profits of some part or unit of the business will, under right conditions, increase personal efficiency and effort. It is especially applicable where work is of such a nature that it cannot be readily measured or standardized, or where close supervision is rendered impossible.

STIMULATING EFFECTIVE MANAGEMENT

Profit sharing is especially efficacious in increasing the personal efficiency of members of the managerial group and other salaried employees occupying positions of responsibility. This group represents the most fruitful field for the application of a profit sharing plan whose purpose is the securing of increased personal efficiency. When emphasis is laid upon obtaining this result, the closer the reward can be brought to the participant's own efforts, as, for example, through departmental or unit profit sharing, the more effective it will prove.

DEVELOPING OF COÖPERATION

Also where coöperation is to be stressed as important, among those whose joint activity and whose attitude toward each other may vitally affect the success of an enterprise, profit sharing will prove productive of valuable results. Group organization for management sharing, among the members of executive or managerial staffs, reënforces profit sharing in the development of the coöperative spirit.

INSURING PERMANENCE OF A BUSINESS

We believe that a much wider application of profit sharing may well be made, particularly among managerial employees, for the purpose of insuring continuance of good management and of permanently protecting the returns upon capital invested. In distributing profits in the most effective manner between sleeping capital and active managers, it will prove of great assistance. Careful consideration of its merits is recommended to those who desire a fair return, coupled with security and permanency of investment.

SECURING PERMANENCE OF SERVICE

Permanence of service among employees can be promoted by the use of profit sharing. It is, however, only one and not the most important means to this end. Prime essentials for the success of any plan to lessen the labor turnover are proper selection, training, and promotion policies, proper working conditions, and adequate wage and salary standards.

PROMOTING INDUSTRIAL PEACE

Profit sharing is also one of the agencies for the promotion of industrial peace; but it is not a specific against strikes, to be used without other remedies. It is, indeed, only one expression of the desire to establish a fundamentally right relationship between employer and worker, and if that desire is not present, profit sharing of itself avails nothing. In any case, when one of the purposes of profit sharing among the rank and file is the promotion of industrial peace, it should in no wise curtail the freedom or mobility of labor.

ADAPTATIONS MUST VARY ACCORDING TO PURPOSE AND NEEDS

This survey clearly indicates that there is no one best plan of profit sharing and that the method of applying the profit sharing principle must depend upon the purposes which it is hoped to accomplish. Such details as the amount or proportion of profits to be distributed, eligibility to a share in profits, the basis of individual payments, the frequency of distributing profits, and the like, must be worked out for each business in the light of its own needs, the character of its employee groups, and its aims in introducing profit sharing.

STOCK OR CASH?

Likewise, the answer to the question — In what form may profits best be distributed? — depends upon various factors. In general, it seems clear that

stock is the most effective form for the distribution of profits among the managerial or discretionary group and that cash or benefit funds are preferable for the wage earning group.

MANAGEMENT SHARING

An interesting subject which has more than once intruded itself into these investigations, which has an important place as a part of profit sharing, and which deserves consideration whether profit sharing is under contemplation or not, is management sharing. In the control of certain prescribed managerial functions by groups or committees lie the beginnings of a wide range of possibilities, of which a business world, now well out of its pioneer stage, will find it more and more necessary to take advantage.

PROFIT SHARING NOT A SUBSTITUTE FOR GOOD MANAGEMENT

While we are confident that proper profit sharing will accomplish some very important results, there are certain things which profit sharing does *not* do. Profit sharing is not a substitute for good management, nor should it be introduced with the expectation that it alone will transform an unsuccessful and poorly managed business into a highly successful and prosperous one. The financial success of any business rests very largely with those who formulate its policy and exercise the managerial functions — those who supervise the buying, the advertising, the selling, the financing, the production, and the

employing. If there is incompetency here, it cannot be expected that the introduction of profit sharing among the employees will overcome the weakness of the management. Many an unsuccessful concern is casting about for some device which will make its business prosperous. Profit sharing alone cannot work this transformation. A management unable to deal with the problems which it already confronts will only add to its troubles by undertaking to grapple with a new problem.

PROFIT SHARING NOT A SUBSTITUTE FOR PERSONALITY

Neither will profit sharing make up for the lack of personality in management, nor will it give the participants such interest and zeal in the success of the concern as to make the business self-operative. Under the most carefully worked out plan, there will remain the same necessity for those qualities of personality — enthusiasm, leadership, foresight, aggressiveness — without which no business can permanently succeed. Personality is an important factor in making profit sharing operate successfully. A well designed plan will fail to produce desirable results if administered by persons unable to command the confidence of employees or to stimulate their interest. On the other hand, some poorly arranged plans have secured desirable results in spite of defects, because administered fairly by those who had the confidence of the participants and who aroused their interest and enthusiasm.

PROFIT SHARING CANNOT SOLVE ALL THE PROBLEMS OF INDUSTRIAL RELATIONS

In spite of the extravagant claims of its early advocates, profit sharing cannot solve all the problems arising between employers and employees. Many of these problems have their roots deep in our industrial system, and no single scheme can be expected to place employers and employees always in agreement and harmony.

PROFIT SHARING IS NOT A SUBSTITUTE FOR THE WAGES SYSTEM

Profit sharing does not propose to do away with the existing economic order, under which some men must be employers and others employees. Indeed, it rests upon the assumption of the continued existence of that economic system and merely proposes that under certain circumstances the flat wage or salary shall be supplemented by an additional payment representing a share in the profits. Just as the commission system provides that the salesman shall receive payments based upon sales, in addition to salary; just as scientific management provides that the workman shall receive a bonus payment based upon output, in addition to stipulated wages; so profit sharing is an arrangement which provides that the participant shall receive a payment based upon profits, in addition to his guaranteed wages or salary. Profit sharing is not a substitute for the wage system, but it should be recognized as having its rightful place within that system.

SOCIAL AND HUMANITARIAN PURPOSES

It has become increasingly clear throughout this investigation that the greater fitness of profit sharing as a means of stimulation for the employees whose work demands imagination and independent judgment makes more likely its successful application to this group; and that the difficulties in the way of effective profit sharing are more serious when the number of participants is large than when it is small. But while the obstacles to be overcome in making a correct application of profit sharing to a large number of wage earners are considerable and its influence as a spur to their efforts often doubtful, yet its services in promoting humanitarian results and in counteracting some of the anomalies in the conventional distribution of profits cannot be overlooked.

In many of the concerns investigated, profit sharing was accompanied by a genuine interest in the well-being of the participants. While, generally speaking, the business point of view has predominated, yet in a substantial number of instances there seems to have been a combination of business and humanitarian motives. Indeed, in some cases the predominating motive seems to have been the unqualified desire that the employees should have a larger share in the productivity of the business, as being more in harmony with the owner's conceptions of social justice. It is interesting to note that among these are some of the conspicuously successful enterprises.

To the extent, already indicated, that profit sharing can produce both desirable business and desirable humanitarian results, it is to be doubly welcomed. For the forces which make not only for increased business efficiency but also for stability of employment, permanence of homes, industriousness, thrift, a standard of living above the average, the beginnings of sharing in management, the closer feeling of coöperation, — all of these, without question, make for better business, better citizenship, and better democracy.

NO METHOD OF COMPENSATION UNIFORMLY APPLICABLE

The complexity of modern industrial organization, the variety of functions and tasks which are intrusted to employees and of the factors which are under their control, the difference in the conditions which surround their work, the diversity of results which it is desired that various groups of employees shall accomplish, render it increasingly clear that there is no one method of compensation which is uniformly applicable. Such systems of remuneration must be worked out as are best adapted to each particular business and to each group of employees within the business. Under some circumstances profit sharing, wisely applied, will prove the most effective method. These circumstances we have endeavored to describe. But under other conditions other methods may be better applicable.

THE FUTURE OF PROFIT SHARING

While profit sharing is to be regarded as but one of many different methods of inducing and compensating effort and efficiency, we are convinced that its possibilities of usefulness are far greater than has been generally realized, and that it may be expected to have a wider and more carefully planned use in the future. It is the hope of the authors that this study and the principles formulated, general and incomplete as they are, may serve to induce others to carry investigations further regarding this important subject, and to encourage wise and careful experimentation in this field.

APPENDIX A

PROFIT AND LOSS SHARING CONTRACT FOR WAGE EARNERS

The A. W. Burritt Co., Bridgeport, Conn.[1]

This Article of Agreement, made and entered into this ....day of ...., one thousand, nine hundred and ...., by and between **The A. W. Burritt Co.,** party of the first part, and the signers hereto, all employees of said company, party of the second part, **Witnesseth** as follows:

First. It is agreed that the party of the first part and the party of the second part shall share the profits and losses of the business of **The A. W. Burritt Co.** so long as they are both parties to this agreement.

Second. The profit shall be ascertained as follows: The inventory of the 1st of February past shall be taken as the starting point, and an inventory shall be taken in the same form on February 1st each year thereafter. From the gross results thus obtained, shall be taken all expenses of every kind, including depreciation of buildings, tools, and machinery, and bad debts; and the results of the above shall be considered the net gain or loss, as the case may be. If the result thus shown shall be gain, the capital actually invested as shown by the inventory at the close of each year shall first draw six per cent (6%) interest (or in case there is less than that amount, shall draw what net gain there is, in liquidation of its claim); the balance then remaining shall be divided between the party of the first part and the party of the second part in such proportions as the actual capital invested in the business bears to

[1] From "Co-operative Plans of the A. W. Burritt Company." Available upon application to the company.

the total wages of the party of the second part for each current year. The total amount coming to the party of the second part shall be divided among its individual members as the year's earning of each bears to their total earnings.

Third. For each current year, one-tenth of the wages of each of the parties of the second part shall be withheld by the party of the first part weekly, and in case there has not been a net loss on the entire business of the year, this reserved money, together with his share in any accrued profit as figured above, shall be paid to each of the parties of the second part on or before March 1 of each succeeding year.

Fourth. In case there should be a net loss made on the business of the year, without figuring any dividend for capital as above provided, this loss shall be divided between the party of the first part and the party of the second part in the same manner as described for dividing profit; but the party of the second part in no case shall become responsible for losses greater than the amount reserved from his wages.

Fifth. Other employees of The A. W. Burritt Co. may become parties to this agreement after this date, on invitation of the party of the first part; but the computation of their share shall be figured only on wages earned after the date of their signature. Any party of the second part may withdraw, either from this contract or from the company's employ, at any time, but the party of the first part holds the right to retain his reserve until the expiration of the current year, and, if said reserve is held, its owner shall share in profits or losses at the expiration of said current year; but in no case can any party of the second part share in the profits or losses unless his reserve has been retained until the end of the year, except as provided in Article Seventh.

Sixth. The party of the first part can at any time discharge any party of the second part from its employ and require him to withdraw from this contract, but, in such case, said party of the second part shall have the option to withdraw his full reserve or to leave it until the end of the year to share in results as above described.

Seventh. It is further agreed by the party of the first part that no party of the second part shall be temporarily retired from work so long as the party of the first part has any work of the kind said party of the second part is accustomed to do; but if there should be a shortage of work in the hands of the party of the first part, it shall reduce the hours of work and so divide the work between the parties of the second part. If at any time any party of the second part should become sick or incapacitated to perform his duties, and has the certificate of a reputable physician that he is so incapacitated, after two weeks duration of said sickness, said party can draw on his reserve wages at a rate not greater than six dollars ($6.00) per week, without affecting his interests in the profits at the end of the year. Further, if any party of the second part should become injured on account of any accident while in the employ of the party of the first part, said party of the first part shall, at its own expense, provide him with a competent physician or surgeon, after application is made to it stating that such services are needed.

Eighth. If any of the parties of the second part wish to inquire into the accuracy of the annual report made to them by the party of the first part, the books of the party of the first part shall be opened for inspection by any reputable Public Accountant employed by the party of the second part, provided such Accountant will agree to confine his report to the statement that the Company's report was or was not correct, and if not correct, shall fully define its error.

Ninth. It is agreed that all differences and disputes resulting from the operation of this contract shall be settled by arbitration.

....

....

APPENDIX B

PLAN FOR WAGE EARNERS

Simplex Wire and Cable Co., Cambridge, Mass.

PROFIT SHARING RULES FOR 1916

THOSE INCLUDED

All employees except those specially excluded.

PRELIMINARY LIST

This includes only those who have been continuously in our employ since January 1, 1915.

PROFIT SHARERS

This includes only those whose names are on the preliminary list, who shall remain continuously in our employ until the dividend for 1916 is paid, and whose services shall be satisfactory. Anyone now on the preliminary list who may be discharged, or who may leave our employ before the dividend is paid, will lose all share, even though he may be employed again later on, and his share will be divided among those remaining.

YOUR SHARE

We propose to divide among the profit sharers a definite percentage of the profits on our business for the year 1916, and this percentage is somewhat larger than for the year 1915.

The actual amount of money to be divided will depend entirely on the amount of our profits for 1916. Each profit sharer will share in proportion to the wages he receives during the year. Under no condition shall we be expected to pay any profit sharer more than 20 per cent on his wages for the year.

The profit sharing dividend will be paid March 1, 1917, or at our earliest convenience thereafter.

SICKNESS AND INJURY

Cases of absence due to sickness shall be decided at our discretion, but no dividend shall be paid on wages not actually received.

In case of injury, a profit sharer shall be considered as having received his regular wages for such time as he receives compensation, but such wages shall not be assumed at more than $20 per week nor for more than fifty weeks.

DEATH BENEFIT

In case of death during 1916 of anyone in good standing on the preliminary list, a death benefit will be paid and deducted from the fund. The amount of the death benefit shall be at our discretion, but shall not exceed the dividend rate last paid on his estimated wages for the whole year 1916.

LAY OFFS

Any employee who may be laid off shall be considered as no longer in our employ unless he returns to work within six weeks.

LEAVE OF ABSENCE

Leave of absence for more than six weeks shall be granted only to those who have been in our employ for two years, and only upon application approved by the President, Vice-President or Treasurer.

ASSIGNMENT OF WAGES

Receipt by us during 1916 of notice of assignment of wages will cause the individual concerned to lose one-third of his profits for the year.

INTERPRETATION OF RULES

Any doubtful case not clearly covered by these rules shall be referred by the President to the Factory Committee for decision.

SIMPLEX WIRE & CABLE CO.

EVERETT MORSS, *President.*

APPENDIX C

PROFIT SHARING PLAN FOR ALL EMPLOYEES

Farr Alpaca Company

HOLYOKE, MASS., *January 28, 1914*

To the Employees of the Farr Alpaca Company:

The directors of this company have voted to inaugurate a system of profit sharing in the form of a wage dividend, with the view of interesting its employees in the financial results of the company's business and of leading them to exercise the greatest possible care to guard against bad work and waste of time and material.

Profit sharers shall be those on our pay roll January 1st each year, and those entering our employ during the month of January each year, who remain continuously in our employ during the balance of the year and whose services shall be satisfactory to the company.

Any on the profit sharers' list who may be discharged, or who may leave our employ, or who shall be deemed unsatisfactory, during the twelve months' period, will forfeit all claim to share in the division of profits that year. The amount thus forfeited will not be saved to the company, however, but will be carried to a benefit fund, out of which the directors of the company may grant assistance to aged or disabled employees. Whether absence from work, resulting from sickness or disability, shall be deemed a break in the continuity of employment, shall be decided in each case at the company's discretion, but in no case shall a dividend be paid on wages not actually earned. The company reserves the right, at its discretion, to remove any unsatisfactory employee from the profit-sharers' list or from its employment.

As soon as practicable after the close of the twelve months' period, profit sharers will be paid a wage dividend on the actual year's wages received, reckoned at the same rate per cent as the shareholders of the company receive in cash dividends on their stock. The yearly total amount paid to shareholders in recent years would have given 8 per cent on the value of the company's plant and working capital, now ascertained by expert auditors to be $7,200,000, and if, under the new customs tariff, we are able to keep up the same total earnings, there is a possibility of our employees receiving 8 per cent in dividends on their yearly wages, and more if profit distributions increase; but, of course, we have not yet had experience enough under present trade conditions to make any predictions.

In the event of the death of an employee whose name is upon the profit sharers' list, the company, at its discretion, may pay to the husband, wife, children, next of kin, or personal representative of the deceased a wage dividend upon his wages earned.

This system of profit sharing is not offered as a substitute for normal advances in wages when conditions warrant. On the contrary, we hope to continue, as now, to pay the highest wages paid in our branch of the cotton warp worsted dress goods industry.

Any question which may arise in the working of this system shall be subject to interpretation of the directors of the company, whose decision shall be final. It is made for one year only, but, if it proves satisfactory, may be renewed or amended from year to year by vote of the directors of the company.

Our employees are referred to rules to be posted in the various departments for further particulars of this plan.

JOSEPH METCALF, *Treasurer*

APPENDIX D

PLAN FOR ALL EMPLOYEES

Sears, Roebuck and Company, Chicago, Ill.

PURPOSE

In order that employees may share in the profits of this business, and to encourage the habit of saving, the Company has decided to contribute annually a sum equal to five per cent of its net earnings (without deduction of dividends to stockholders), as shown by the annual audit of its books, to an Employees' Savings and Profit Sharing Fund, as explained below, which will go into effect commencing July 1, 1916.

It is intended that this plan will furnish to those who remain in the employ of the Company until they reach the age when they retire from active service, a sum sufficient to provide for them thereafter, and that even those who achieve a long service record, but who may not remain with the Company all of their business life, will have accumulated a substantial sum. This Savings and Profit Sharing Fund will enable an employee to secure an income for himself after the close of his active business career or, in case of his death, for his family.

ELIGIBILITY

1. Participation will be entirely voluntary.

2. Every employee of Sears, Roebuck and Co., regardless of position, will, after three years of service, be eligible to participate in this fund, so long as he remains an employee.

CONTRIBUTIONS TO THE FUND

1. An employee in order to participate must deposit in the fund 5 per cent of his salary. The Company will contribute a sum equal to 5 per cent of its net earnings (without de-

duction for dividends paid stockholders) as shown by the annual audit of its books. As this fund starts July 1, the Company will for the year 1916 contribute 5 per cent of one-half of the profits of the entire year.

2. No employee may deposit more than 5 per cent of his salary, and in no case more than $150 per annum; this limit being deemed advisable so that the higher salaried employees may not too largely participate in the fund.

PARTICIPATION IN THE PROFITS

1. The contributions of the Company will be made annually as soon after the first of each year as an audit of the books will permit, and will be credited pro rata to participating employees in the proportion which the amount deposited by each employee during the preceding year for which the Company has contributed bears to the total amount deposited by all employees during such year.

2. So that every employee eligible to participate may have ample opportunity to carefully consider its advantages and to enter at its inception, all those joining prior to September 1, 1916, may, by paying into the fund 5 per cent of their salary from July 1, 1916, share in the fund from its inception as of July 1, 1916.

WITHDRAWALS

1. A depositor who has completed ten years of service will be entitled to withdraw all money credited to his account, including the Company's contributions.

2. A depositor who has not completed ten years of service will be entitled to withdraw only the amount he has deposited, plus interest at 5 per cent per annum, compounded semi-annually, and no more; except in the case of a woman depositor who, after five years' service, leaves to become married, in which case she will be entitled to her full share in the fund, including the portion contributed by the Company; and except in the case of the death of a depositor while in the service of the Company, in which case his estate will be entitled to the full amount credited, including the contributions of

the Company, and the money due will be paid to his legal representatives.

3. A depositor shall withdraw upon ceasing to be an employee of the Company, or upon failing to regularly make his deposit.

4. A depositor who once withdraws cannot re-enter the fund.

5. In any case of withdrawal where a depositor is entitled to share in the contributions of the Company, he will receive the full amount to his credit, as shown by the accounting for the preceding year, plus interest at the rate of 5 per cent per annum and plus such sums as the depositor may have deposited since December 31 of the preceding year, with interest at 5 per cent per annum.

6. Loans will be made to depositors in cases of actual necessity and when in the opinion of the trustees the circumstances warrant it.

MANAGEMENT

1. The fund will be handled, entrusted and invested under the direction of a Board of five Trustees, to be selected by the Board of Directors of the Company, three to be officers or directors and two employees (not officers or directors) of Sears, Roebuck and Co.

2. It is intended that so far as practicable and advisable the fund will be invested in shares of stock of Sears, Roebuck and Co., to the end that the depositors may, in the largest measure possible, share in the earnings of the Company.

3. The Board of Trustees may, from time to time, adopt rules to carry out the purposes of this plan, and may adopt amendments to the plan; but no change shall be made in the plan as above outlined unless the same is ratified by the vote of a majority of the depositors. All questions of interpretation of this plan, or amendments thereto, or the rules pertaining thereto, or relating to any matter of accounting, values, profits, or any other matters or differences which may arise shall be determined solely by the Board of Trustees, and the decision of the Board shall be final and conclusive upon all concerned.

DISCONTINUANCE

The fund may be discontinued at any time by announcement of the Company, made at least six months before its final yearly contribution. After such announcement no new depositors will be eligible to join and, upon the payment into the fund of such final contribution, the fund shall be distributed among all the depositors pro rata in proportion to their interests as ascertained by the Board of Trustees.

Dated, *July 1, 1916.*

SEARS, ROEBUCK AND CO.,
By JULIUS ROSENWALD, *President*
ALBERT H. LOEB, *Vice-President*

NOTE

The attached table shows the estimated profits that will accrue over a period of time, basing the figures on last year's profits and assuming that all employees at present eligible will participate. As the profits of the Company can reasonably be expected to increase in coming years; as all eligible may not elect to participate; as the investments of the fund should increase in value, and as all such items will add to the interest of participants in the fund, it is expected that the profits will be greater than these figures indicate.

ESTIMATE OF ACCUMULATIONS OF FUND

Based on Earnings as of Year Ending December 31, 1915, and Pay Roll as of July 1, 1916

Annual payment by company	$550,000.00
Annual payment by employees	287,406.00
	$837,406.00

Effect on Every $1.00 Deposited by Employees:

Payment by employee	$1.00
Payment by company	1.91
	$2.91

Employee Receiving Salary of $20 per week Would Have to His Credit:

$3,428.45 after 15 years, of which	$780.00 was paid in by employee.
5,253.67 after 20 years, of which	1,040.00 was paid in by employee.
7,583.10 after 25 years, of which	1,300.00 was paid in by employee.
10,556.24 after 30 years, of which	1,560.00 was paid in by employee.

The amount that any employee will receive can be calculated on the proportion that his salary bears to $20 per week, for example:

If saving is 60c per week, share will be 60% of amount shown above.
If saving is 75c per week, share will be 75% of amount shown above.
If saving is $1.25 per week, share will be 125% of amount shown above.

The present Anniversary Check plan will continue as heretofore.

INFORMATION

The "Anniversary Check plan" above referred to provides for the payment to all employees who earn under $1,500 per annum a check for 5 per cent of their annual salary on the fifth anniversary of their service, 6 per cent on the sixth anniversary, 7 per cent on the seventh, 8 per cent on the eighth, 9 per cent on the ninth, 10 per cent on the tenth, and 10 per cent on every anniversary thereafter.

APPENDIX E

PLAN FOR ALL EMPLOYEES

Spencer Wire Company

WORCESTER, MASS., *June 30, 1915*

To the Employees of the Spencer Wire Company:

The Directors of this Company, realizing and appreciating the valuable and faithful services of its employees, many of them extending over a long period of years, have voted to inaugurate a system of Profit Sharing in the form of a Wage Dividend. A trial will be made for one year — from July 1, 1915 to July 1, 1916 — and the result will determine its continuance for a further period.

The success or failure of the plan, therefore, is to a great extent in your hands. Our object is several fold: — The Company desires to interest you in its financial result, and is willing to share its profits. It hopes in return that the profits will be increased by the employees taking a personal interest in the continued success of the business, leading them to exercise the greatest possible care to prevent bad work and waste of time and material. Also to encourage increased production and suggestions for improvements of any nature. It seeks to avoid frequent changes, for an experienced employee is of more value than a beginner. One of our employees has been with us fifty-eight years, and a number of them over fifty years. We want all to stay with us steadily, rather than change occasionally or frequently, for you can do as well here as anywhere. You can help by encouraging your fellow workman to stick to his position and assist in securing desirable fellow workmen. You can assist by seeing that others do not carelessly waste or destroy our property, and look out for small

savings which, in themselves, do not amount to much, but in the aggregate are very important.

Profit Sharers shall be those on the Company's pay roll July 1, 1915, who remain continuously in our employ during the twelve months next ensuing, and whose services shall be satisfactory to the Company.

Any on the Profit Sharers' List who may be discharged, or who may leave our employ, or who shall be deemed unsatisfactory, during the twelve months period, will forfeit all claim to share in the division of profits that year. The amount thus forfeited will not be saved to the Company, however, but will be carried to a Benefit Fund, out of which the Directors of the Company may grant assistance to aged or disabled employees. Whether absence from work, resulting from sickness or disability, shall be deemed a break in the continuity of employment, shall be decided in each case at the Company's discretion, but in no case shall a dividend be paid on wages not actually earned. The Company reserves the right, at its discretion, to remove any unsatisfactory employee from the Profit Sharers' List or from its employment.

In accordance with this plan, as soon as practicable after July 1, 1916, Profit Sharers will be paid a Wage Dividend on the actual year's wages received, reckoned at the same rate per cent as the shareholders of the Company receive in cash dividends on their stock. The expected cash dividend to be paid the stockholders of the Company during this period is 6 per cent; but if, by your efforts and the successful conduct of the business, the earnings of the Company should warrant a larger dividend to the stockholders, the same increased rate of dividend shall be paid on your wages.

In the event of the death of an employee whose name is upon the Profit Sharers' List, the Company, at its discretion, may pay to the husband, wife, children, next of kin, or personal representative of the deceased, a Wage Dividend upon his wages earned.

Any question which may arise in the working of this system, shall be subject to the interpretation of the Directors of the Company, whose decision shall be final.

It is made for year only, but if it proves satisfactory, may be renewed or amended from year to year by vote of the Directors of the Company.

H. W. Goddard
E. B. Dunn
G. M. Thompson
Directors

APPENDIX F

PLAN FOR ALL EMPLOYEES

The Minneapolis Bedding Company

We, the stockholders of the MINNEAPOLIS BEDDING COMPANY, *hereby offer and propose:*

That after paying all salaries and wages as heretofore and paying all stockholders 7 per cent annually on book value of the stock of the Minneapolis Bedding Company, and after creating a sinking fund equal to 5 per cent of our outstanding Preferred Stock annually (as per our constitution and by-laws), and after taking off a reasonable amount for wear and tear on buildings and machinery, said amount not to be in excess of 5 per cent of the book value of same; we will then take the profits of the said Minneapolis Bedding Company and its branches and divide between the stockholders and the employees of said Company according to the ratio that the total pay roll bears to the total capital invested. So that an individual employee earning $1000 a year would share equally with the stockholder whose stock has a book value of $1000.

These profits are to be paid to the employees of said corporation annually, only those employees participating who shall have put in at least nine months of service during the twelve months just previous to the end of the fiscal year.

The shares of the profits that would accrue to the transient labor shall be used for shop betterment, and if found necessary both the employees and the stockholders will be expected to contribute their share for additional shop betterment from time to time. But no more than 10 per cent of said profits shall be employed in additional shop betterment in any one year.

It is understood that the employees are to have the sole naming and employing of a chartered accountant to ascertain the actual profits from year to year. The expense of said accountant to be paid (from profits) before a division is made. In case that for any reason there are no profits to divide, the report of the above mentioned accountant shall be to the effect that there will be no profits this year for division.

The employees of said Minneapolis Bedding Company shall elect a committee of three from each department of the following departments to act as a general committee representing the employees:

(*a*) From the mattress making department and feather room
(*b*) From the tick making department
(*c*) From the office and shipping department
(*d*) From the iron bed department and machine shop
(*e*) From the first floor woodworking, couch making and spring bed department other than the Way Sagless
(*f*) From the Way Sagless department
(*g*) From the brass bed department
(*h*) From the traveling men and branch managers

No foreman is eligible to a place on this committee, but the foremen will be invited in by the management at all conferences. Committees for safety and shop betterment will be selected from time to time to coöperate with the general committee.

APPENDIX G

PLAN FOR ALL EMPLOYEES

National Carbon Company

CLEVELAND, OHIO, *June 9, 1916.*

To the employees of National Carbon Company:

By reason of a desire on the part of the Company that all of its employees shall have an opportunity to share in the profits, the following offer is made, whereby they may subscribe for its Common capital stock upon the following conditions:

I. SUBSCRIPTION PRICE

All subscriptions shall be at the price of $100 per share, being the par value of said stock.

II. NUMBER OF SHARES

The 5,000 shares of Common stock available for this purpose will be distributed as fairly as possible among all employees in the Company's various plants. The determination of the maximum number of shares to which an employee may subscribe, is based upon his annual wages or salary, and each employee receiving this communication will find at the end hereof a statement of the maximum number of shares to which he is entitled to subscribe. Any employee may subscribe for a less amount of stock than the maximum indicated, but no subscription for a fractional part of a share will be received. The Company reserves the right, in case of over-subscription, to reduce all subscriptions proportionately in amount.

III. PAYMENTS

All subscriptions shall be paid in not more than five (5) years nor less than three (3) years from June 9, 1916. Payments may be made in installments as the subscriber may elect, on or before the fifteenth day of any calendar month, and in any event the payments of each subscriber shall average, per month, at least one per cent (1 %) of the total subscription price. No subscriber shall pay more than one-third ($\frac{1}{3}$) of the total subscription price during any one year, and all remittances must be in even dollars.

IV. DIVIDENDS AND INTEREST

From the date on which payments begin and during the continuance of such payments, dividends on the stock will be credited to the account of the subscriber at the same rate as is paid to other stockholders. Interest at the rate of four per cent (4 %) per annum will be charged to the account of the subscriber at the end of each three months, on deferred payments. The foregoing plan as to dividends and interest shall continue until the subscription is fully paid and stock is issued. Thereafter dividends shall be paid in the same manner as to other stockholders.

V. BONUS

In order that the subscriber may have and show the active interest of a stockholder and working partner in the business, a bonus of five dollars ($5.00) per share for each share of stock subscribed for will be credited during each of five successive years (first credit to be made on July 15, 1916), provided the subscriber remains in the continuous employ of the Company and shows a proper interest in the Company's welfare. No employee whose subscription has been canceled, or stock account closed except by payment in full, shall receive such bonus. To a subscriber whose stock had been fully paid in less than five (5) years, such bonus will be paid in cash each year until the five year period has expired, if he has been continuously in the employ of the Company and has retained his stock.

VI. TRUSTEES

The stock subscribed for in pursuance of this offer shall be issued or transferred to and held by a trustee or trustees selected by the Executive Commitee of the Company.

VII. CERTIFICATE. VOTING POWER

When stock shall have been fully paid for, the subscriber will receive a stock certificate for the shares purchased. Until such time as the certificate is issued in the name of the subscriber and delivered to him, he shall not have the right to exercise the voting power of any stock subscribed for, but such voting shall be exercised by the trustee or trustees.

VIII. LEAVING EMPLOY; DISCONTINUANCE OF PAYMENTS

If a subscriber shall (a) voluntarily leave the employ of the Company, or (b) be discharged, or (c) allow the average of his monthly payments to remain below 1 per cent of the total subscription price, for a period of three months, without the written consent of the Company, or (d) cancel his subscription before his stock shall have been fully paid for as herein provided, in each case his account may, at the option of the Company, be closed forthwith, and there will be returned to him the exact amount which he has paid on account of the principal of his subscription, with interest thereon at four per cent (4%) per annum from the time of his payments to the date of the closing of his account, and thereupon his subscription and his entire interest in the stock to which it relates shall cease and determine, and he shall be entitled to no other credit or further remittance on account thereof.

Any cancellation by the Company in pursuance of the terms of this communication shall be sufficient, and the subscriber shall not be deemed to have any interest requiring the taking of proceedings under any statute or any proceeding at law or in equity to effect such cancellation.

IX. CANCELLATION OF PORTION

The subscriber may, by written instrument to the Company, cancel a portion of his subscription. In such event all payments or credits to his account shall be credited on the amount owing upon the remainder of his subscription, and bonus shall be received as from date of subscription, on the reduced number of shares only.

X. DEATH OR PERMANENT DISABILITY OF SUBSCRIBER

If the subscriber dies or becomes permanently disabled, payment will be made to his estate or to him, as the case may be, as follows:

(a) If his subscription has not been fully paid, the Company will repay the money theretofore paid by the subscriber on account, together with interest thereon at four per cent (4%) per annum from the date of each payment, and all sums by way of bonus which may have been credited prior to the closing of his account. All interest in the stock to which said subscription relates, and all rights of the subscriber or of his estate hereunder, shall thereupon cease and determine. But if the subscriber, or in case of his death, his personal representative, shall so elect, the Company, instead of making repayment of the money paid by the subscriber, may permit the payments to be completed under the subscription and may issue stock certificates for said stock in the manner herein provided.

(b) If his subscription has been fully paid, but certificate not yet delivered, the Company will deliver to the subscriber, or to his estate, stock certificate for the stock included in such subscription.

XI. SALE, ASSIGNMENT, ETC.

The rights vested in the subscriber hereunder are strictly personal, and except with the express written assent of the Company, neither said rights nor any interest therein shall be subject to sale, pledge, assignment, or transfer by the subscriber, his executors or administrators, at any time or in any manner, whether by voluntary act of the subscriber or other-

wise, nor shall they be subject in any way to the lien or obligation of any of the employee's debts or liabilities, or to attachment, execution, or sale therefor; and if any sale, pledge, assignment, or transfer thereof is made or attempted, or if any attachment or execution is issued against the same, the Company may at its option immediately terminate all rights of the subscriber hereunder, in the manner specified by Section VIII above.

XII. EXECUTIVE COMMITTEE

All subscriptions shall be made with the express understanding that the decision of the Executive Committee of the National Carbon Company shall at all times be final in respect to the rights or interest of the subscribers and their successors in interest and in respect to all questions relating to the same. If the subscriber shall refuse to abide by the decision of said Executive Committee, the Company shall have the right to annul and terminate all rights of the subscriber hereunder, in the manner specified by Section VIII above.

XIII. SPECIAL AGREEMENT

The Company reserves the right, through its Officers or Executive Committee, to make such special agreement as may best be suited in their judgment to meet the requirements of any exceptional case.

XIV. LIMITATIONS

Neither this plan nor anything growing out of it shall be construed to be a contract of employment, and nothing herein shall limit or affect the right of the Company to discharge and employ at any time, with or without cause.

XV. DATES FOR BEGINNING OF PLAN

Subscriptions will be received until July 10, 1914, and the first installment will be payable on or before June 9, 1916. Further announcement will be made as to the manner and place of making payments.

XVI. SUBSCRIPTION BLANK

A form of subscription is herewith enclosed, and before forwarded to the Company the subscription must be approved and signed by the head of the subscribers' Department.

By order of the Board of Directors,

NATIONAL CARBON COMPANY

J. S. CRIDER,

Vice Pres. and Gen. Mgr.

You are entitled by the rate of compensation which you are receiving, to subscribe for a maximum of .... shares under the above plan.

NATIONAL CARBON COMPANY

APPENDIX H

PLAN FOR SELECTED EMPLOYEES

Thomas Devlin Manufacturing Company, Incorporated

BURLINGTON, N. J.

In order to give good and faithful men a chance to advance their own interest as well as that of the Company, this Company will give ....one of its employees, the earnings of $1,000.00 worth of stock for a term of five years from .... (These earnings to be ascertained and declared by the Board of Directors) on the following conditions:

The said .... understands and agrees,

First. That this offer on the part of the Company remains in force only so long as he gives continued and faithful service (that being the consideration for the offer).

Second. That he agrees to allow the sum of Two Dollars per week to be retained by the Company, towards the purchasing of the $1,000.00 of Stock, of which he is to receive the earning capacity as above stated.

The Company on its part agrees,

First. That as soon as the sum of the cash payments and the earnings of the stock amount to $100.00 (or even multiples thereof), certificates of stock will be issued covering such amounts at the par value of $100.00 per share.

Second. To guarantee all cash payments against loss, up to the time when certificates of stock are issued; when the stock is issued .... takes it with all the risks and liabilities of other stockholders of the Company.

Third. In the event of the death of .... between dates of issue of stock, to return to his legal representa-

tives the money which may stand to his credit on the books, with interest at the rate of 6 per cent per annum. (This of course does not apply to cash payments for which stock has been issued.)

In witness of the obligations on its part the Company has hereto set its seal and the signatures of the President and the Secretary on this .... day of .... 190 .

Witness in signing,

....

....

The undersigned accepts on his part the terms and conditions of the foregoing; and in witness thereof has hereto set his hand and seal this .... day of .... 190 .

Witness in signing,

....

....

APPENDIX I

PLAN FOR SPECIAL GROUP OF MANAGERIAL EMPLOYEES

United States Rubber Company

NEW YORK, *April 20, 1916*

To the Officers and Employees of the United States Rubber Company and of its subsidiary Companies:

The Company offers to officers and employees, whose wages or salaries are at the rate of Thirteen Hundred Dollars per annum or over, the opportunity to subscribe for shares of its Common Stock heretofore issued and now held by and in the Treasury of the Company, at the price of $50 per share, subject to the following conditions:

First. All subscriptions shall be for the value of one or more shares of Common Stock at the price of $50 per share and upon the express condition that there may be allotted to the subscriber all or any part of his subscription as the Executive Committee may determine.

Second. The maximum amount which may be subscribed for hereunder by such officers and employees respectively will be governed by varying percentages of their respective salaries or wages, which percentages will be determined in each case by the Executive Committee, it keeping in mind the salary and position of the individual; and, as respects .... such maximum amount is .... (................) shares.

No officer or employee of any class is obliged to subscribe for any or for the full amount of stock which he may be thus privileged to subscribe for, but if he so elects he may subscribe for a lesser amount.

Third. Payment on the subscriptions shall be made in monthly installments, to be deducted from the salary or wages of the subscriber in such amounts as he may desire, subject

to the provision that the minimum amount of a monthly installment shall be $5 per share. The subscriber may anticipate such payment to such extent as he may desire, but any amount so paid in anticipation shall be made in even dollars. Interest at 5 per cent per annum will be charged by the Company on all amounts unpaid on the stock.

Fourth. From the date on which payments begin and during the continuation of such payments all dividends paid on the stock will be credited to the subscription account of the subscriber until the stock is fully paid for and issued to him, after which dividends will be paid in the same manner as to other stockholders.

Fifth. In case a subscriber shall cancel his subscription before his stock shall have been fully paid for there will be returned to him the exact amount of his payments made on account with interest at 5 per cent per annum on the same from time of payment, no credit being given him for dividends or for the special allowance referred to in Section Sixth hereof, and no interest being charged on deferred payments, and thereupon his subscription and all interest in the stock to which the same relates shall cease and determine. Whenever such payments shall have been discontinued without the consent of the Company for the period of three months, his account will be closed forthwith and his interest in the stock shall cease and his payments on account will be returned to him as above stated.

No subscriber can cancel his subscription unless he cancels all of it.

Sixth. As soon as the stock shall have been fully paid for and not before, it will be issued in the name of the subscriber. The subscriber may then sell his certificate whenever he chooses, but as an inducement for him to keep it and to remain continuously in the employ of the Company or of one or another of its subsidiary companies, the following offer is made, viz:

If he does not sell or part with any part of the said stock but shall keep it and on the 1st of April, 1917, and the 1st of April for four consecutive years thereafter shall exhibit the

certificate to an official designated by this Company and obtain from him a certificate to the effect that he has been continuously in the employ of the Company or of one or another of its subsidiary companies during the whole preceding year and has shown a proper interest in its welfare and progress, he will for each of such five years receive from the Company a cash payment at the rate of $3 a share for each share of said stock.

Seventh. If the subscriber shall retain his said certificate and remain continuously in the service of the Company or of one or more of its subsidiary companies for said five years, the Company intends that he shall then receive a still further compensation, which cannot now be ascertained, but which it is intended will be derived from the following sources, viz:

Subscribers for stock under this offer whose subscriptions are canceled before being paid in full will forfeit and will not receive the special allowance of $3 per share referred to in Section Sixth hereof. Nor will such special allowance be paid for such of the five years as remain after forfeiture to subscribers whose certificates may be transferred from their names at any time during the five years, whether intentionally or otherwise; nor to subscribers who after receiving their certificates do not remain continuously in the service as provided in said Section Sixth. The Company will, however, pay into a Special Fund at the end of each remaining year of said five years the said $3 allowances forfeited by subscribers as aforesaid. This latter Fund shall be credited with 5 per cent annual interest, and at the end of the five years period the total amount thus accumulated will be divided into as many equal parts as shall be equal to the number of shares of said Common Stock issued as aforesaid to and then remaining in the hands of subscribers who shall have so continued in such employ for the whole of said five years. The Company will then by its own final determination award to each then remaining subscriber whom it shall find deserving thereof as many parts of such accumulated Fund as he shall be entitled to on the basis of the number of said shares then held by him under this plan as compared with said total number.

Eighth. In case a subscriber dies or becomes permanently disabled while faithfully serving the Company or one of its subsidiary companies during such five years period, payments will be made to his estate or to him as follows:

(*a*) If his subscription is fully paid and he has received and not deposed of his certificate, the Company will pay, as above stated in Section Sixth a sum equal to $3 per share for each of the five years not then expired, and also a *pro rata* amount of the Special Fund mentioned in Section Seventh, arising from the said forfeitures which may have accrued at the time of his death or disablement.

(*b*) If his subscription has not been paid in full, the Company will pay, as stated, the money theretofore paid in by him on account, together with the dividends paid on the stock subscribed for, the special compensation for the entire five years period and a *pro rata* share of the amount of the Special Fund mentioned in paragraph (*a*) preceding, less interest at 5 per cent per annum on unpaid amounts.

(*c*) If at the time of decease or permanent disablement the subscription has been fully paid but certificate not yet delivered, the Company will deliver the certificate, as first stated above, together with the additional payments as mentioned in paragraph (*a*) preceding.

Ninth. A subscriber may designate in his subscription the person to whom in the event of his death he desires the Company to deliver all amounts or stock in connection with his subscription which would otherwise be deliverable to his estate. When such designation has been made and shall not have been changed, the Company, upon satisfactory proof of death under the conditions of the subscription, will deliver to the person designated, if then living, all amounts or stock in connection with the subscription which would otherwise be deliverable to the estate of the subscriber. When such designation has been made the subscriber's estate shall have no claim to any such amounts or stock unless the person designated or his substitute or substitutes should die before

the subscriber, and in that event delivery will be made to the subscriber's estate. By written notice delivered to the Treasurer of the Company by which he is employed, a subscriber may change the person designated.

Tenth. Subscribing officers amd employees whose employment has been or may be suspended by reason of the temporary closing of the Company's plants and who shall continue ready and willing when required to resume their service will not be deprived of the special cash payment of $3 per share per year during such suspension. During such suspension monthly payments will not be required, though if so desired by the officer or employee they may then be made.

In case of the death during such suspension of any such officer or employee, his estate or his designee as above will be entitled to the same benefits accruing to his subscription as if he had died while under employment.

Failure to present the original certificate, as provided, or the withdrawal of a partly paid subscription or the failure to resume employment when requested will constitute and will be deemed conclusive evidence of the termination of his employment by such officer or employee and a relinquishment of all benefits referred to above.

Eleventh. All subscriptions shall be upon the express understanding and condition that the decision of the Executive Committee of the United States Rubber Company, as said Committee shall from time to time be constituted, shall at all times be final with respect to the constitution and meaning hereof and to the rights or interests of the subscribers or any question relating to or arising out of the same, and that the vote of a majority of the Committee shall be as conclusive as the unanimous vote of said Committee.

Twelfth. Subscriptions will be received until May 10, 1916, inclusive, and allotment will be made a few days later. The first deductions will be made from the May salary or wages.

By order of the Executive Committee.

UNITED STATES RUBBER COMPANY

By SAMUEL NORRIS, *Secretary*

APPENDIX J

PLAN FOR SPECIAL GROUPS OF MANAGERIAL EMPLOYEES

The Studebaker Corporation

EMPLOYEES' PROFIT SHARING PLAN FOR THE YEAR OF 1916

South Bend, Indiana, *April 10, 1916*

Mr. ....

....

Dear Sir:

On April 4, 1916, the directors voted to continue the Employees' Profit Sharing Plan for the year of 1916, and by reason of the responsible executive position which you occupy and in the belief that your work and efforts can materially influence the profits of the business, we take pleasure in advising you that your name has been placed on the list of participants for this year.

As we have this year made commission contracts with all automobile branch executives, based on the sales and profits of their respective branches, and therefore eliminated over forty participants from this plan, the schedule of this fund shows different figures, but the fund itself will yield participants approximately the same ratio of return as they received for 1915.

This statement of intention concerning a voluntary and contingent distribution of a certain part of our 1916 profits does not in any way constitute a contract on the part of the corporation to make such distribution, nor alter or affect any of its contract relations with you or other employees. Moreover, the Finance Committee reserves the right, at its discretion, to at any time change or withdraw the plan with respect to any individual. Unless we receive at once your

written declination of this offer we will understand that you accept it on this condition.

This plan is continued for the fiscal year of 1916 only, but it will be renewed from year to year unless, in the judgment of the board of directors, it shall prove undesirable, or experience suggests amendments or modifications.

The deductions from the total net profits referred to in the plan will amount to approximately $3,000,000 for the year 1916, and therefore the total net profits this year must exceed this amount before anything will be set aside for the fund. For example:

If the Net Profits of 1916 are:	The Total Fund will be about:	The amount applicable to your group will be........ %, or:
$ 3,000,000	Nothing	Nothing
5,500,000	$250,000	....
8,000,000	562,500	....
10,000,000	862,500	....
Etc.	Etc.	Etc.

The number of participants in your group as at present constituted is .... men, and your share, on a per capita division, will be .... of the amount earned by your group. However, the Finance Committee reserves the right to increase or decrease the number of participants in your group as may be necessary from time to time, which of course may slightly alter these figures.

THE PLAN

The fund shall be known as the "Employees' Profit Sharing Fund," and it shall be administered by the Finance Committee and under the following terms and conditions:

1. *The Fund.* The fund shall be computed in the following manner: From the consolidated net profits of The Studebaker Corporation and subsidiary companies for the year of 1916, as certified to by our auditors, there shall be deducted: (1) the amount of the 7 per cent dividends on the preferred stock, (2) the amount which, under its charter, the corporation is re-

quired to set aside annually in "Special Surplus Account" for the amortization of the preferred stock, and (3) a further amount equal to 6 per cent upon the common stock outstanding. There shall thereafter be computed a sum arrived at by taking

10 per cent of all or any part of the first $2,500,000 remaining net profits

12½ per cent of all or any part of the second $2,500,000 remaining net profits

15 per cent of all remaining net profits over $5,000,000

The credits to the "Special Surplus Account" for the amortization of the preferred stock will reduce the amount of the preferred dividends, and thus increase the amount available for the fund each year.

The total fund shall be distributed to the participants by dividing the amount into four parts, one part for each group, by use of percentages adopted for each division by the Finance Committee. Thereafter the amount of each group fund shall be equally divided among the participants thereof as described below.

2. *Participants*. Employees entitled to participate shall be only those holding executive positions as described below, whose responsibilities include spending the corporation's money, handling its property, making commitments for its account, and the employment and supervision of its employees.

Participants shall be divided into four groups, according to positions held, and according to whether, and to what extent, the Finance Committee may deem a participant is contributing to the corporation's profits by reason of his position, worth, and loyalty, as follows:

Group No. 1. The principal operating heads at Detroit and South Bend.

Group No. 2. Managers of principal departments, junior officers, and general plant superintendents.

Group No. 3. Assistant managers of principal departments, assistant plant superintendents, and general foremen.

Group No. 4. Plant foremen, managers of bureaus, and chief clerks of departments.

At the beginning of each year, the official heads of the executive, manufacturing, sales, financial, and accounting departments shall submit a list of proposed participants to the Finance Committee, from which the committee shall make selections, approve those entitled to participate in the fund, and notify each person accordingly.

No director of the corporation, nor any officer or employee holding a personal bonus contract, shall participate in the fund, unless such participation is approved by the Finance Committee.

3. *Distribution of Fund.* Within thirty days after the audit of the corporation's books shall have been completed, each participant will be notified of the amount of bonus, if any, to which he is entitled under the plan, and will receive a check for not less than ....per cent of the amount. The remaining ....per cent will be invested for his account in common stock of the corporation, which will be delivered to him, subject to possible forfeiture mentioned below, 25 per cent within 30 days after February 1, 1918; 25 per cent within 30 days after February 1, 1919; 50 per cent within 30 days after February 1, 1920; provided he has continued uninterruptedly in the service of the corporation to said dates.

In case a participant, having stock held for his account, shall resign his position or is discharged by the corporation for cause or for any other reason, of which it shall be the sole judge, he shall forfeit all or any part of said stock, which the Finance Committee in its discretion may decide.

In case a participant, having stock held for his account, is either disabled by injury or illness, or dies, he or his legal representative shall receive the full amount of his stock without penalty.

Any dividends received upon said stock held as above for participants shall be promptly paid to them by the corporation.

Participants have no right to assign stock held for their account by the corporation, and any attempt at assignment shall give the corporation the right to remove the person making it from the list of participants.

4. In case a participant is promoted during the current year, no change shall be made in the group to which he is already assigned.

In case a participant is discharged by the corporation for cause or for any other reason, of which it shall be the sole judge, or resigns his position during the current year, he shall automatically forfeit all rights to participation in the fund of the current year.

In case a participant is released on account of curtailment in business or shut-down, and not on account of lack of efficiency during the current year, he shall receive a pro rata participation of the fund of the current year, and the full amount of common stock held for his account under Paragraph 3.

5. The Finance Committee shall have discretion after August 1, 1916, if the net profits warrant it and the market price of common stock seems favorable, to anticipate purchases of common stock for the fund of the current year, in order to give participants the benefit of purchases at as low prices as possible. *By order of the Board of Directors.*

A. R. ERSKINE, *President*

THE STUDEBAKER PLAN FOR 1917

The plan in effect for 1917 is of the same general nature as the 1916 plan, described above, although it differs somewhat in detail, and in the percentage of profits distributed. The percentage of profits to be distributed among participants, varying with the total profits, and the method of distribution between the groups, is as outlined below.

First, reserve: 7% on preferred stock
6% on common stock
Amount required for amortization
(Total approximately \$3,000,000)

5% of the first \$2,000,000 excess net profits
6% " " next 1,000,000 " " "
7% " " " 1,000,000 " " "
8% " " " 1,000,000 " " "
9% " " " 1,000,000 " " "
10% " " " 1,000,000 " " "
10% " all net profits over \$10,000,000

DISTRIBUTION

Group	No.	Amt. based on \$10,000,000	Total	%
S	2	\$35,000	\$ 70,000	14.0%
T	5	20,000	100,000	20.0%
U	3	10,000	30,000	6.0%
D	3	7,500	22,500	4.5%
E	16	5,000	80,000	16.0%
B	48	2,000	96,000	19.2%
A	19	750	14,250	2.8%
K	51	500	25,500	5.1%
R	150	300	45,000	9.0%
Emergency Fund			16,750	3.4%
	297		\$500,000	100.0%

Groups S, T, U, D and E receive 50 per cent cash and 50 per cent common stock of the corporation, subject to forfeiture in case employee resigns or is discharged for cause before stock is delivered to him. Deliveries are made 25 per cent after one year, 25 percent after two years, and 50 per cent after three years.

Groups B, A, K and R receive all cash.

APPENDIX K

PLAN FOR SPECIAL GROUP OF MANAGERIAL EMPLOYEES

American Rolling Mill Company, Middletown, Ohio.

PROFIT SHARING PLAN NO. 1

Including Heads of Departments and all salaried employees receiving $100 or more per month.

Employees applicable under Plan No. 1 who are in the service of the Company on July 1, the beginning of its fiscal year, with every intention of so continuing, whose record covering their past year's work is satisfactory to the Board of Managing Officers of the Company, are permitted to participate in the "NET PROFITS" of the Company to the extent of a specified percentage (say, for instance, one-tenth of one per cent), the amount being fixed separately in each case in proportion to the duties and responsibilities of the position held.

By "Net Profits" the Company means the net amount available after all fixed charges, reserve funds, depreciation, and dividends or interest on PREFERRED SECURITIES have been reserved or paid.

To understand the opportunity of the employee under this plan, one must know something of the Company's organization and the character of its investment.

The Company has no Bonds or Mortgage securities of any kind. Its total investment is represented by Common and Preferred stock issues and surplus. Its authorized and outstanding Preferred stock issue represents only 10 per cent of its total capitalization. Its Common stock represents actual investment, a substantial premium having been paid for a very large percentage of its outstanding issue.

The amount allotted to each employee is due and payable on the day preceding Thanksgiving, that amount of time being required after the first of July to secure a complete and final analysis of the business of the previous year. Amounts due are paid in cash.

APPENDIX L

PLAN FOR SPECIAL GROUP OF MANAGERIAL EMPLOYEES

The Dennison Manufacturing Company, Framingham, Mass.[1]

EXTRACTS FROM ARTICLES OF INCORPORATION

1. (*a*) ....

(*b*) No increase of First Preferred stock shall be authorized without the written consent of the holders of three-fourths of the then outstanding stock of each of the three classes of stock.

2. (*a*) Second Preferred stock may be issued only: first, in exchange for Industrial Partnership stock, as hereinafter provided; or, second, for cash or property.

(*b*) Increases of Second Preferred stock may be authorized by vote of a majority of all stock outstanding of the classes or class of stock then entitled to vote as hereinafter provided in Par. 11.

3. (*a*)..

(*b*) All subsequent issues of Industrial Partnership stock shall be to principal employees as defined and limited in Par. 8 of this agreement, but after January 1, 1913, no such issue shall be made unless a dividend for the preceding calendar year of at least five per cent (5%) in cash on Industrial Partnership stock already outstanding shall be paid or provided for.

(*c*) Increases of Industrial Partnership stock may be authorized by vote of a majority of all stock outstanding of the classes or class of stock then entitled to vote as hereinafter provided in Par. 11.

[1] From "Articles of Association and By-Laws of the Dennison Manufacturing Company," available upon application to the company.

4. ....

5. First Preferred stock shall be entitled to a preferential, cumulative dividend at the rate of 8 per cent per annum, without interest on any deferred dividend, payable quarterly as and when declared by the Directors, and shall begin to accrue as of or on December 1, 1911.

6. Second Preferred stock may, as herein limited, be issued in series under provisions in the By-laws and amendments thereof: the first series to include all Second Preferred stock issued until, by amendment of the By-laws, the rate of dividend is changed; the second series to begin upon such change of rate and to include all Second Preferred stock issued until another such change of rate; and so on, similarly, as to subsequent series. But the rate so provided for any series shall always remain the rate of dividend for that series.

The first series of Second Preferred stock shall be entitled, after dividends on First Preferred stock have been paid or provided as aforesaid, to a preferential, cumulative dividend without interest on any deferred dividend at such rate (not less than 4 per cent per annum) as may be provided in the By-laws.

The second series of Second Preferred stock shall be entitled to a dividend without interest on any deferred dividend (similar in preference to said first series dividend) at such rate as may be provided in the amendment to the by-laws; and so on, similarly, as to subsequent series. But in no series shall the rate of dividend provided be less than 4 per cent per annum.

7. After all First and Second Preferred dividends have been provided for as above required, there shall be set aside annually out of the remaining net profits 5 per cent of such remainder for the purpose of buying in shares of First Preferred stock as and when the Directors may deem it expedient.

Out of one-half of the remaining net profits, dividends may be declared and paid to holders of Industrial Partnership stock. The rate shall not exceed a total of 20 per cent for any year.

8. After all above requirements shall have been provided

for, the remaining net profits shall be apportioned under provisions of the By-laws to principal employees as extra remuneration for services theretofore rendered by them, except that an amount or amounts not at any time exceeding a total of 10 per cent of the total par value of the then outstanding capital stock of all classes may be reserved in a Suspense Account at the discretion of the Directors, who may likewise dispose of the same, except as may be otherwise provided by the By-laws.

Such extra remuneration shall be paid to each principal employee by *issuing* to him for such services, out of authorized Industrial Partnership stock, shares of Industrial Partnership stock of the total par value equal to his apportioned extra remuneration.

Principal employees shall be limited to the following:

Employees (including salaried officers) of this Company at the time any such apportionment is voted, whose aggregate service in this Company (including time served with the Dennison Manufacturing Company Ltd. of London, England, or with the Dennison Manufacturing Company m.b.h. of Berlin, Germany, or with any other Company subsidiary to this Company, or with the original Company), shall amount, at the end of the calendar year for which such apportionment is made to the time set forth below, and whose remuneration actually received from this Company during such calendar year (without including any excess over rates prevailing in this Company for work of equal profit-earning power as determined by a two-thirds vote of all the Directors, or remuneration paid for overtime, or based upon rates varying with performance, such as commission, salary-and-commission, task-and-bonus, piece, time-piece, time-and-bonus, and the like), shall have been as set forth below, and which rate of remuneration in this Company shall have been approved by a two-thirds vote of all the Directors; namely, —

At least seven years' service and remuneration of at least \$1200; or at least six years' service and remuneration of at least \$1500; or at least five years' service and remuneration of at least \$1800;

And who shall have contracted in writing with this Company for extra remuneration.

9. (*a*) All shares of Industrial Partnership stock shall be non-transferable and non-assignable, except to or for this Company as provided below.

(*b*) Whenever an Industrial Partnership stockholder ceases, from any cause, to be an employee, no dividends shall thereafter be declared upon his stock, and he or his legal representatives shall transfer and assign such Industrial Partnership stock at and in accordance with the request of this Company, upon payment or tender by this Company of the par value thereof, or at the Company's option upon its issue or tender (in exchange for such Industrial Partnership shares) of an equal number of Second Preferred shares. In either case there shall also be paid in cash all declared but unpaid dividends.

(*c*) No such Industrial Partnership shares shall be paid for in cash, however, if any obligations due to First Preferred stock remain unsatisfied or if the Company's capital shall have or would thereby become impaired.

10. In case of liquidation or dissolution of the Company or a distribution of its assets or in case of any sale of substantially its entire property and assets, First Preferred stock shall be entitled to a preference to the extent of $125 a share and all accrued but unpaid dividends thereon; and thereafter Second Preferred stock shall be entitled to a preference to the extent of $10 a share and all accrued but unpaid dividends thereon; and then Industrial Partnership stock shall be entitled to receive $10 a share and all declared but unpaid dividends thereon, — after which all surplus value remaining shall be divided pro rata among the holders of all classes of stock according to their total par value holdings.

11. Until Industrial Partnership stock to the amount of One Million Dollars ($1,000,000) in par value shall have been issued, the entire voting power of stockholders, except as otherwise provided in subdivision (*c*) of this paragraph, shall vest in First Preferred and Industrial Partnership stock together, each holder of First Preferred stock being entitled to

one vote for each share held and each holder of Industrial Partnership stock being entitled to one vote for each ten shares held, but without any fractional vote for any shares aggregating less than ten shares.

At the next annual meeting of the stockholders after Industrial Partnership stock to the amount of One Million Dollars ($1,000,000) shall have been issued, the entire voting power of stockholders shall vest and remain in holders of Industrial Partnership stock, except that holders of First Preferred stock or holders of First and Second Preferred stock shall have voting power as hereinafter provided: —

(*a*) If for any twelve months dividends on First Preferred average less than 4 per cent per annum, except in case of destruction of any substantial part of the manufacturing plant by war, fire, earthquake, or other natural calamity, or if for any twenty-four months such dividends average less than 6 per cent per annum, then holders of First Preferred stock shall have sole voting power of stockholders, but without power to alter or amend this agreement, except by vote of two-thirds of each class of stock, outstanding, provided, however, that increases of Second Preferred and Industrial Partnership stock may be authorized, and the terms and manner of disposition of such increased stock may be determined, by the vote of a majority of First Preferred stock then outstanding; but, when full obligations to First Preferred shall have been again earned and paid (figuring minimum depreciation as above provided in Paragraph 4), voting power shall revert to holders of Industrial Partnership stock, and the original plan shall be carried on, unless meanwhile sole voting power shall have finally vested in First Preferred stockholders as provided in the following paragraph (*b*).

(*b*) If for any thirty-six months such dividends average less than 7 per cent per annum, or if in any period of four years the Company shall not have paid all cumulative dividends in full, so that there shall be no dividend or part of any dividend in arrears, then sole voting power shall vest at the next annual meeting and thereafter remain in First Preferred stockholders.

(*c*) In case of a proposed dissolution of the Company or of amendment or alteration of this agreement except as hereinafter provided as to increases of Second Preferred stock and Industrial Partnership stock or of a sale or lease of all or such substantial part of its property as would involve a virtual change or abandonment of the Company's business, holders of all classes of stock shall be entitled to vote; and such dissolution, amendment or alteration, or sale or lease, may be voted and authorized by vote of a majority of the outstanding stock of each class in the case of a dissolution, and of two-thirds of the outstanding stock of each class in case of such amendment or alteration or sale or lease.

Increase of Second Preferred stock and of Industrial Partnership stock may be authorized, and the terms and manner of disposition of such increased stock may be determined by vote of a majority of First Preferred stock and Industrial Partnership stock outstanding from time to time while the voting power is in First Preferred stock and Industrial Partnership stock, as provided in the first sentence of this paragraph No. 11, or by vote of a majority of the then outstanding Industrial Partnership stock alone, while the voting power is in holders of Industrial Partnership stock under the second sentence of this paragraph No. 11.

12. No mortgage or mortgages for more than a total of one-half the par value of all classes of stock then outstanding shall be given or placed upon the Company's property or any part of it without the written consent of the holders of three-fourths of the then outstanding First Preferred stock.

EXCERPTS FROM BY-LAWS

Such net profits as are to be apportioned as extra remuneration for such services among the principal employees shall be apportioned annually in proportion to the amount of remuneration actually received during the entire preceding calendar year by such principal employees (without including any excess over rates prevailing in the company for work of equal profit-earning power as determined by a two-thirds vote of all

the Directors, or remuneration paid for overtime, or based upon rates varying with performance such as commission, salary-and-commission, task-and-bonus, piece, time-piece, time-and-bonus, and the like); except that in determining such proportions, all amounts in excess of $10 (the par value of the shares of Industrial Partnership stock) or in excess of any multiple of $10, up to and including $5 shall be disregarded and all such excess amounts from $5 to and including $9.99 shall be considered $10. In making these fractional adjustments amounts may be supplied from or carried to the Suspense Account. The Directors may likewise at any time after January 1, 1912, apportion similar net profits earned from the incorporation of this Company to December 31, 1911, inclusive.

Within a period not more than eight years after the creation of the Suspense Account, the Directors shall temporarily reduce said account to an amount not greater than the sum necessary to pay the net quarterly dividend on all First and second Preferred stocks outstanding, plus 2 per cent of the total par value of the then outstanding capital stock of all classes; and thereafter from time to time said account shall be similarly reduced, at least once in every eight years from the time of the previous reduction.

The rate of dividend on Second Preferred stock shall be 6 per cent per annum.

APPENDIX M

PLAN FOR SELECTED MANAGERIAL EMPLOYEES

The Youngstown (Ohio) Sheet and Tube Co.

That, Whereas, ... is in the service of The Youngstown Sheet and Tube Company in the capacity of ...., and in that connection is charged with important duties respecting the business of said Company, and said Company is desirous of interesting him to remain in its service.

Now, Therefore, It is mutually agreed between the above named parties, as follows:

First: That said .... will remain in the service of said Company, if so desired by the Company, for the period of two years from this date, or for such lesser period of time as the Company may desire to retain him, at the stated money salary which he has heretofore received, (unless such money salary shall be hereafter changed by mutual consent), and as further compensation for his services shall receive, and be entitled to the rights and benefits which are secured to him by this contract, as hereinafter set forth.

Second: Said .... agrees to subscribe for .... shares of the Common stock of said The Youngstown Sheet and Tube Company, at a price of .... Dollars per share, and agrees to pay 10 per cent of said subscription, amounting to .... Dollars in cash, at the date of making said subscription, and the remaining 90 per cent of said stock subscription shall be paid in the manner set forth in this paper. In computing the dividends, which may hereafter be declared by said Corporation upon its Common stock, the above .... shares of stock shall be treated the same as if fully paid up, in this respect, that there shall be credited to

the subscription therefor the amount of the dividends which would be distributable to said .... shares, had the same been paid up. As against said subscription, or the balance remaining unpaid thereon, there shall be an interest charge at the rate of 5 per cent per annum from this date. When the dividends, thus to be credited upon said subscription, together with such cash payments as said .... may elect to make to apply thereon, shall amount to....................., plus the aforesaid interest charge of 5 per cent, then said stock shall be deemed fully paid, and a certificate therefor shall be issuable to said .... at the time and in the manner hereinafter provided.

Third: It is, however, hereby expressly provided, that if said .... shall, within the period of two years from this date, cease from any cause other than death, injury, or sickness, incapacitating him from further service, to be in the service of said Company, whether through his own act, or that of the Company, then said Company may, at its option, cancel said subscription, by paying over to said .... a sum of money equal to the amount which, at the date he shall cease to be in the service of the Company, shall have been credited up toward paying for said subscription, plus interest upon the cash payments made by him, at the rate of 5 per cent from the date of each payment, and plus also a sum equal to 10 per cent of the par value of the stock subscribed for, less the amount of the dividends which may have been credited up to said stock subscription; or said Company may, at its option, in lieu of paying such amount of cash, issue to said .... shares of its Common Stock, in an amount which shall, at .... per share, be equal to the amount of such credits as near as possible, without making fractional shares, the fraction of a share (if there be one), to be adjusted and paid for in cash, and thereby cancel the residue of said subscription.

Fourth: Said .... may, at his option, make such cash payments, from time to time, as he may desire to make to apply upon said stock subscription, and in this way,

cause said subscription to be paid up earlier than it otherwise would be under the foregoing provisions of this paper, but nevertheless, certificates for such stock shall not be issuable until the expiration of two years from this date, and if before the expiration of said period of two years, said .... shall cease to be in the service of the Company, said subscription shall be subject to cancellation, under and in accordance with the provisions contained in paragraph third of this agreement.

It is further provided, that if said Company shall sell its manufacturing plants, before the expiration of said period of two years, with a view to distributing its assets and retiring from business, then said .... may, at his option, to be exercised at any time within thirty days from such sale, pay up the residue of said subscription, and become entitled to have certificates for said stock issued to him.

Fifth: If, after the expiration of said period of two years, and before said subscription shall have been fully paid up, said .... shall cease to be in the service of said Company, then he shall have the right, at his option to be exercised within thirty days from the date of his leaving the service of the Company, to pay up the residue of said subscription in cash, with interest thereon, and receive certificates for the full number of said shares, or to demand and receive certificates for as many full shares of said stock as said payments and credits shall suffice to pay for at .... per share, with cash adjustment for the amount of any fractional share, and in such case, to cancel the residue of his subscription.

Sixth: If said .... shall die before said subscription shall have been fully paid up, then the Company shall, within a reasonable time after his decease, notify his legal representatives of their rights under this contract, and thereupon such representatives shall have the right, within thirty days from the giving of such notice, to elect either to pay up, in cash, the amount remaining unpaid on said subscription, with interest thereon, as aforesaid, and to receive,

upon such payment, certificates for the full number of said shares; or such legal representatives may elect to receive certificates for as many full shares of said stock as the payments and credits theretofore made shall suffice to pay for at .... Dollars per share, under the terms of this contract, with a cash adjustment for any fractional share. And if said .... shall be permanently disabled by injury or by sickness to such an extent as to be unable to remain longer in the service of the Company and discharge the duties of his position, then and in such case, said .... shall have the right, within a period of thirty days after leaving the service of the Company on account of such injury or sickness, to elect either to pay up in full the amount of said subscription, or to receive certificates for as many shares of stock as the payments and credits theretofore made shall suffice to pay for, at the price per share fixed by this contract. If the several aforesaid elections or options which are specified in this paragraph and also in the fifth paragraph of this agreement shall not be made within the several periods of time above designated, then said ...., or his legal representatives (as the case may be), shall be considered to have elected to take stock to the amount which the payments and credits theretofore made shall suffice to pay for at the price per share named in this contract, with a cash adjustment for any fractional share, if any there shall be. Said elections shall be made in writing, to be delivered either to the President or Treasurer of the Company.

Seventh: This contract shall not be construed as obligating said Company to retain said .... in its service for said period of two years, or for any given period of time.

In Testimony Whereof, The above named parties have subscribed their respective signatures to duplicates hereof, this .... day of ...., 1913.

THE YOUNGSTOWN SHEET AND TUBE COMPANY

By ....

President

....

APPENDIX N

PLAN FOR SELECTED MANAGERIAL EMPLOYEES

A. W. Burritt Company, Bridgeport, Conn.

EXTRACTS FROM ARTICLES OF INCORPORATION

ARTICLE IV. The capital stock of this corporation shall be $1,500,000, and shall be divided into classes as follows:—

A. $250,000 of First Preferred stock represented by 5000 shares of the par value of $50 each.

B. $500,000 of Second Preferred stock represented by 10,000 shares of the par value of $50 each.

C. $750,000 of Common stock represented by 15,000 shares of the par value of $50 each.

A

FIRST PREFERRED STOCK

1. The First Preferred stock shall be entitled to cumulative dividends out of surplus or undivided profits from the first day of February, May, August, and November, as the case may be, preceding the date of the issue thereof (or from such day of issue, if it be the first day of February, May, August, or November) at the rate of seven (7 %) per centum per annum, and no more, payable quarterly on the last day during the months of April, July, October, and January of each year. If on any such dividend day a dividend of less than one and three-fourths ($1\frac{3}{4}$%) per centum of the par value shall have been paid on the First Preferred stock, the deficiency shall be paid subsequently in full before any dividends shall be declared or paid upon or set apart for the Second Preferred stock or Common stock.

2. Upon any liquidation or dissolution of the Company, whether voluntary or otherwise, the holders of the First Preferred stock shall be entitled, before any distribution shall be made to the holders of the Second Preferred stock or of the Common stock, to be paid in full the par amount of their First Preferred shares, together with all dividends accrued or in arrears, and no more.

3. While any First Preferred stock remains outstanding the Company shall not do any of the following things except upon the vote, at a stockholders' meeting called for that purpose, of seventy-five (75%) per centum of the First Preferred stock outstanding, namely:

(*a*) Change the purposes for which the Company is formed or the provisions of the Certificate of Incorporation (Articles of Association) of the Company; or

(*b*) dispose of the property and business of the Company in their entirety by a sale, consolidation, merger, lease, or otherwise; or

(*c*) give or allow any mortgage or other lien to secure an issue of bonds or other evidence of indebtedness; or

(*d*) issue or guarantee any debentures, notes, or other evidence of indebtedness maturing more than twelve (12) months from the date of issue thereof: or

(*e*) create or issue any shares of stock having priority over or on a parity with the authorized First Preferred stock, or increase the authorized First Preferred; or

(*f*) issue any of the authorized, but unissued, First Preferred stock in excess of one-third ($\frac{1}{3}$) of the value of the net worth of the Company as hereinafter defined.

The net worth shall be deemed to be the total value of the entire assets of the Company less all liabilities of the Company, other than stock liability.

4. The holders of stock shall possess voting powers, for the election of Directors and for all other purposes, as follows: Each share of stock of each class shall entitle the holder thereof to one vote at all stockholders' meetings; provided, however, that in case the Company shall have failed in respect of four

successive quarterly periods to declare and pay the full regular quarterly dividends on the First Preferred or Second Preferred stock, and in every such case, and so long as there shall be any arrears of dividends on the First Preferred or Second Preferred stock, then and in that event at the next annual meeting thereafter the holders of the First Preferred stock shall be entitled to vote for and to elect all of Class A Directors, constituting a majority of the Board of Directors, namely :— three members of a Board of five; four members of a Board of seven; or five members of a Board of nine; and the holders of the Second Preferred stock shall be entitled to vote for and to elect one Class B Director, irrespective of the total number of Directors; and the holders of the Common stock shall be entitled only to vote for and to elect all of Class C Directors, constituting the balance of the minority representation, namely: one member of a Board of five, or two members of a Board of seven, or three members of a Board of nine.

In order to secure such majority control to the holders of the First Preferred stock, in case of such default in payment of First Preferred or Second Preferred stock dividends, the Board of Directors shall be divided, but only upon such contingency, into three classes, namely:—

Class A Directors, constituting a majority and consisting of three mumbers of a total Board of five; or four members of a Board of seven; or five members of a Board of nine; and

Class B Directors, consisting of a single representative on the Board, irrespective of the total number of the Board; and

Class C Directors, consisting of minority representation of one member of a total of five Directors, and two members of a Board of seven, and three members of a Board of nine.

In the election of Directors, holders of the First Preferred stock only shall be entitled to vote for Class A Directors, and holders of Second Preferred stock only shall be entitled to

vote for the Class B Director, and holders of Common stock only shall be entitled to vote for Class C Directors.

The division of Directors into classes, and the powers and restrictions as to voting for Directors, as herein set forth, shall continue until all accrued dividends or dividends in arrears upon the First Preferred and Second Preferred stock, or either of them, shall have been fully paid by the Company.

If, however, all accrued or in arrear dividends upon the First Preferred and Second Preferred stock shall have been paid by the Company at any time, then and thereupon the Directors shall cease to be divided into classes and to be elected by the several classes of stock, as aforesaid, but the entire Board of Directors shall thereafter be voted for and elected by the holders of all outstanding stock irrespective of class distinction; provided, however, that the said classes of Directors and the said restricted voting and representation shall be again revived at the next annual meeting after a dividend default, as hereinbefore provided for, may recur.

B

SECOND PREFERRED STOCK

1. The Second Preferred stock (subject to the preferences of the First Preferred stock) shall be entitled to cumulative dividends out of surplus or undivided profits from the first day of February preceding the date of issue (or from such day of issue if it be the first day of February) at the rate of *six per centum per annum*, and no more, payable one and one-half per centum quarterly on the last day of April, July, October, and January in each year. Upon any default in the payment of such dividends, the deficiency shall be paid in full before any dividends shall be declared or paid upon or set apart for the Common stock.

2. Upon any liquidation or dissolution of the Company, whether voluntary or otherwise, the holders of the Second Preferred stock shall be entitled (after distribution to holders of First Preferred stock), before any distribution shall be made

to the holders of Common stock, to be paid in full the par amount of their Second Preferred shares, together with all dividends accrued or in arrears, and no more.

3. While any Second Preferred stock remains outstanding, no dividends shall be declared or paid upon or set apart for the Common stock greater than at the rate of 6 per centum per annum.

4. The Second Preferred stock may be retired with the approval of stockholders owning three-fourths of the entire outstanding capital stock of the Company given at a stockholders' meeting warned and held for that purpose after vote by the Board of Directors to make such retirement.

The Second Preferred stock that may be called in for retirement by the Company shall be retired, in the chronological order in which it was issued; all stock issued during the same fiscal year, however, is to be considered as all issued at the same time. That is, all of the Second Preferred stock issued in any fiscal year of the Company shall be retired in toto before any Second Preferred stock issued in a later year shall be retired. In case part only of the Second Preferred stock issued in any fiscal year shall be retired at one time, so much as is retired shall be apportioned pro rata among the shares of the Second Preferred stockholders that were issued during that fiscal year.

5. Second Preferred stock may only be transferred within sixty days next after the close of any fiscal year.

6. Holders of the Second Preferred stock shall be privileged to vote at stockholders' meetings, subject, however, to the limitations in Paragraph 4 under subdivision A of Article IV.

C

COMMON STOCK

1. The Common stock shall be entitled to dividends out of surplus or undivided profits only in case there shall be no arrears of dividends on the First Preferred stock and on the Second Preferred stock. No dividend greater than 6 per

centum per annum in any event can be paid upon the Common stock when there is any Second Preferred stock outstanding.

2. Upon any liquidation or dissolution of the Company, whether voluntary or otherwise, the holders of the First Preferred stock and of the Second Preferred stock shall be entitled to be paid in full the par amount of their respective preferred shares, together with all dividends accrued or in arrears, before any distribution shall be made to the holders of the Common stock.

3. As it is the purpose and aim of the Company's plan that only those who are producers may hold the Common stock, therefore the Common stock may only be held by the present officers and other employees of the Company, and by such future officers and cther employees as from time to time be selected and approved by a majority vote of the Common stockholders, or as may be entitled thereto by the terms of a Common Stock contract, so called, made in accordance with the By-laws.

Upon the retirement of any holder of Common stock, whether an officer or other employee, from the service or employ of the Company, by resignation, death, discharge, or from any other cause, then *ipso facto* such person's Common stock becomes peremptorily exchangeable by the Company at the end of the fiscal year in which such retirement may take place for Second Preferred stock without any action whatever on the part of the Company. In such exchange the Second Preferred stock is to be issued at par, and in such exchange the value of the Common stock is to be determined by an inventory at the close of such fiscal year taken in accordance with the By-laws.

Any holder of Common stock so retiring shall be entitled to vote during the balance of that fiscal year and receive full dividends on such stock for the full fiscal year in which such retirement may take place, irrespective of the time or cause of such retirement. No further dividends shall be declared or paid thereon, and after the close of such fiscal year the retired holder thereof shall have no vote on such Common stock.

4. Common stock may be transferred, as such, only to such

person or persons, employee or employees as already hold Common stock or as may be selected in accordance with the provisions of Paragraph 3 next above and any such transfer may only be made within sixty days next after the close of any fiscal year.

5. Holders of the Common stock shall be privileged to vote at stockholders' meetings, subject, however, to the limitations in Paragraph 4 under subdivision A of Article IV.

EXTRACTS FROM BY-LAWS

Article 6

Section 1. The Directors shall prepare conditions of eligibility as to positions, the occupants of which are deemed by them eligible.

> *List A* to be subscribers to the Common stock, under the Common Stock Contract, so-called; [1]
>
> *List B* to be subscribers to the Profit and Loss Sharing Contract, so-called.

Section 4. All persons eligible to subscribe under said List A are privileged respectively to subscribe for Common stock under the Common Stock Contract in amount not to exceed $1000 for the first $1000 of such subscriber's salary, and five times the amount of such subscriber's salary, in excess of $1000. In case said amount shall include a fraction of $50, such odd amount shall entitle the subscriber to subscribe for a full share.

Section 5. Such subscriptions under the Common Stock Contract may be made only within sixty days next after the close of any fiscal year. Persons holding Common stock may be discharged by the Company only by a majority vote of the Board of Directors, approved by a majority vote of stockholders at the next annual meeting.

Section 6. Subscribers for Common stock under the Common Stock Contract are entitled to attend all meetings of stockholders, but shall have no vote on their stock subscription.

[1] See page 259.

APPENDIX O

PLAN FOR TRAVELING SALESMEN

(*Name of Company withheld by request*)

THIS AGREEMENT, made this.....day of........................ 19........, by and between,..., a corporation, of.., party of the first part, and..of...................................state of.... ...., party of the second part, to take effect on the ....day of.......................19........, witnesseth:

That the first party hereby employs second party as traveling salesman on the terms hereinafter mentioned to sell........................ ...., in such territory and to such persons and on such terms as first party may from time to time designate. But either party to this contract may terminate and cancel the same at any time they or either or them may elect to do so, by mailing to the other a notice to that effect, directed to the respective place of residence hereinbefore mentioned, and upon the expiration of five........days after such notice has been mailed, this contract shall cease, terminate, and be absolutely void, and proof of mailing such notice shall be held in all judicial tribunals (both inferior and of record) as sufficient and conclusive evidence of notice for the cancellation of this contract.

The party of the second part hereby agrees to pay all his own traveling and other expenses of every kind.

First party agrees to pay the second party, and second party agrees to accept, in lieu of all other compensation an amount of money equal to............per cent of the net profits (after first deducting all losses and charges of every kind, including bad and doubtful accounts), on all approved sales of merchandise made by him, or by first party to his customers, while he remains in its employ. The second party hereby agrees, that in determining the net profit on sales made by him or to

his trade, he will at all times accept as conclusive, and be bound by, the cost price on merchandise that may from time to time be given him by first party, and in determining such net profits the cost prices and net profits shall be arrived at by the system and in the manner now and heretofore practiced by first party.

It is agreed first party shall have the sole right to determine what credit shall be given to customers, and second party shall not receive pay for any sales made by him which are not subsequently approved by first party.

Second party agrees, in consideration of said employment, when requested by first party, to assist in collecting doubtful or delinquent accounts, which may arise in his territory, without any compensation or expense whatever to first party.

Second party agrees during the entire term of his engagement under this contract he will conform to and abide by any and all rules and regulations of first party now in force, or which may, at any time hereafter, be made by it in conducting its business.

This contract shall never be construed to mean that second party acquires any interest whatever in the business of first party, or any part thereof, but he shall be held and regarded as an employee only of first party, doing business on commission.

It is also and further understood and agreed by and between the parties to this contract that during such time as said second party is actively employed under said contract, said first party is to advance to said second party payments at the rate of............ dollars per annum........................but all sums or moneys paid or that may be paid by said first party to said second party shall be deducted from said second party's share of his net profits.

....

....

BIBLIOGRAPHY

THE four following publications constitute the most valuable body of literature upon the subject of profit sharing.

"Profit Sharing and Labor Co-Partnership in the United Kingdom," 1912. Published by the Board of Trade, Department of Labor Statistics, Great Britain. A careful analysis and description of profit sharing and coöperative plans in operation in the United Kingdom, including statement of cases in which profit sharing has been abandoned, the rules of the various schemes, and opinions as to results.

"Profit Sharing and Co-Partnership Abroad," 1914. Published by the Board of Trade, Department of Labor Statistics, Great Britain. A description and analysis of profit sharing and coöperative plans in operation in France, Germany, Holland, Italy, Switzerland, the British Dominions, and the United States. The above two reports are practically confined to a consideration of profit sharing among wage earners.

"Profit Sharing in the United States," Bulletin of the United States Bureau of Labor Statistics, Whole No. 208, 1917. A scientific and highly valuable study of profit sharing plans in operation in the United States, including plans for the wage earners, plans limited to the more important employees, bonus plans commonly known as profit sharing, and discontinued plans. The value of this report is greatly enhanced by its bibliography, which contains a complete list of references to books, pamphlets, and articles in periodicals, on profit sharing, both in the United States and in foreign countries.

"Profit Sharing by American Employers," 1916. Published by the Welfare Department of the National Civic Federation, New York. An undiscriminating compilation of plans used by American employers, including not only profit sharing, but numerous other forms of bonus and stock distribution.

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